FUNDAMENTALS OF ECONOMICS

HUGHES

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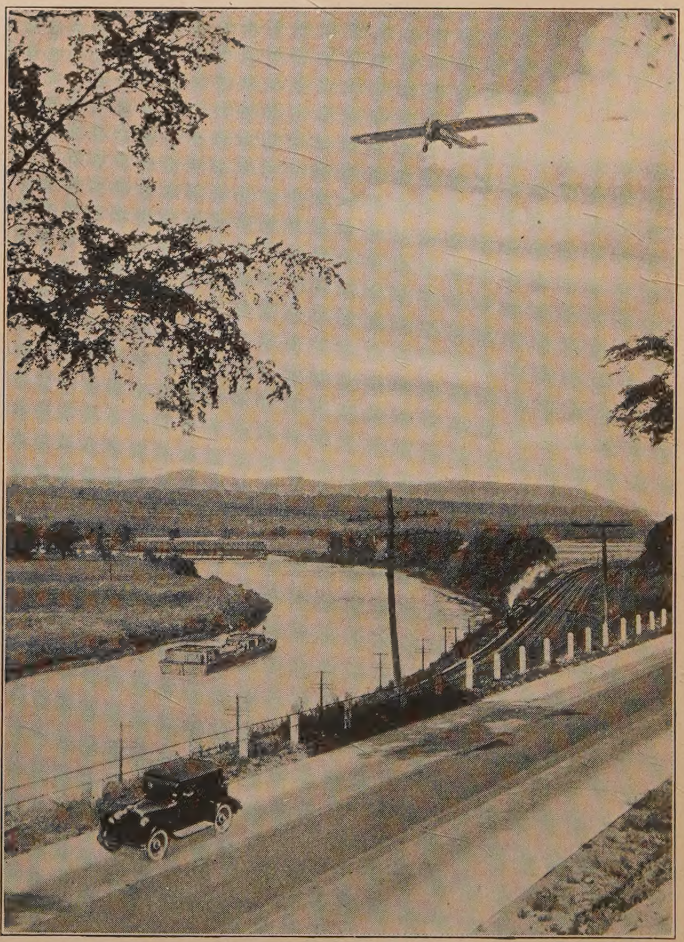


Ewing Galloway

SERVANTS OF CIVILIZATION

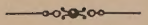
Can you find evidence in this picture of all the four factors of economic activity — land, labor, capital, and management?

FUNDAMENTALS
OF
ECONOMICS

BY

R. O. HUGHES

DEPARTMENT OF CURRICULUM STUDY AND RESEARCH
PITTSBURGH PUBLIC SCHOOLS



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PREFACE

Some writers on economics seem to have been obsessed by the notion that if they used language readily comprehended by the average human being they and their learning would somehow lose caste. Moreover, the impression has been too common that economics is necessarily dry and difficult. These are some of the reasons why it has never enjoyed in our secondary schools the place which it deserves. There are many signs, however, of a growing interest in this very important subject.

This book is an attempt to present the fundamental principles and ideas of economic thought and practice in such a way as to appeal to boys and girls in the later years of the secondary school. Concrete examples are presented in connection with statements of general truths or theories and often it has been possible to draw these from the everyday observations of the young folks themselves. Numerous illustrations help to link the statements of the text with the world in which we live and work.

Many suggested problems and thought questions offer opportunity for the pupil to use his own power of reasoning or opportunity for research in making application of the principles developed in the text. Of course no class will be expected to work up all the suggested topics for special study or to read all the references given at the ends of the various chapters. A large enough list has been prepared, however, to encourage classes to undertake a variety of more or less original types of work.

And so this book makes its bow with the challenge to its readers, "Let's learn something that cannot fail to help us live more capably, and we'll have some fun, too, while we're learning it."

R. O. Hughes

September, 1929

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FUNDAMENTALS OF ECONOMICS

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PART I: OUR ECONOMIC PROGRESS

CHAPTER I

ECONOMICS AND LIFE

I am the master of my fate:
I am the captain of my soul.
— HENLEY

What a wonderful thing it would be if we could truthfully assert with respect to ourselves this utterance of Henley's! Let us think of some of the forces that influence a person's life, especially those which have to do with the vitally important undertaking that we commonly call earning a living. To what extent do economic conditions mold a man, woman, or nation?

---

1. What Life Means to People. — "What are you doing with yourself these days?" asked a teacher of a former pupil.

"Holding down a good job," was the boy's cheery answer.

"And what are you up to, Mollie?" was another query.

"Keeping the well-known wolf away from the front porch," the girl merrily replied.

To do something worth doing and to have a good time while you are doing it are surely worthy achievements. To know in addition that you are paying your own way in the world is a great satisfaction. To help some one else along or to make your community a pleasanter place to live in, besides, gives truly a "grand an' glorious feeling."

To every individual, no doubt, life is a different proposition. To some, the future seems to hold nothing but long

hours of toil and drudgery, while to others it means just that many hours of happiness and progress. A boy was once asked why he had chosen the subject about which he had just finished reciting in class. He replied that he took it because he couldn't find anything else. Many people choose their life work in just this haphazard fashion. Some who are ambitious enough to strive for the best seem to be hindered by certain acts of fate, as it were. Others seem to find " the breaks coming their way," or, still better, " they make their own breaks " in the game of life.

2. Elements That Govern Our Lives. — We may note five elements that govern people's lives — their environment, their talents, their limitations, their objectives, and their desires.

Environment is any external condition or situation that touches one's life. It may be either personal or material — it may mean either the people with whom one comes in contact or the material surroundings in which one's life is spent. Home conditions are often responsible for the making or breaking of men and women. Friends who have a strong influence over others can sometimes inspire or ruin a young person's life.

Environment affects not only individuals, but sometimes whole countries or parts of a nation. Great Britain's entire history has been colored by the fact that she is entirely surrounded by water. As a result, she is one of the greatest maritime powers the world has ever seen.

Environment sometimes denies one the opportunity to exercise his natural gifts. The poet Gray said very truly in his *Elegy Written in a Country Churchyard* —

> Full many a gem of purest ray serene
> The dark unfathom'd caves of ocean bear;
> Full many a flower is born to blush unseen,
> And waste its sweetness on the desert air.

Very likely there have been thousands of Americans who would have done as well in the Presidency as the majority of those who have held that office. Quite probably some

jack-of-all-trades on a New England farm might have become a noted inventor if his early days had been spent among machinery or in a laboratory. The southern mountain whites have an ancestry more nearly one hundred per cent American than that of any other large group in the country; but living penned up in the Blue Ridge and the Smoky Mountains, they were long untouched by the main current of civilization and some of them are even yet primitive, comparatively speaking, in their habits and homes.

Environment, however, does not always hinder people. Some fortunate ones are born to wealth or "fall into" a business opening which they do nothing directly to discover. Many, moreover, overcome tremendous odds. Abraham Lincoln's surroundings as a boy were not such, one would think, as to produce a president. If this humble Kentucky-born lad had been contented with the rough life of his boyhood, he would not be one of the nation's heroes to-day. Nevertheless, environment is a big factor in man's progress, and too few of us show much resemblance to Lincoln. We may truly make our own opportunities in many cases, but who knows why the "big chance" comes to one person when he is free to take it but never comes to another under similar circumstances?

Point out five ways in which your environment has influenced you. Are you doing better or worse than other people in environments the same as or similar to yours?

Talent is that natural ability, skill, or cleverness with which one is gifted, usually in just one line. Talent is responsible for the fame of many men. Many men and women can draw, but the one who has the technique, the natural ability to harmonize colors and shapes, is the one who will find a place in *Who's Who* as an artist.

But talent must be used and trained. Talent undeveloped is like a radio without a speaker; it is of no service unless skill is obtained through a knowledge of the fundamental

principles of that particular cleverness. Talent unwisely directed, like a razor in the hands of a baby, may do immense harm. That is why education and experience are of such infinite importance. We must learn what to do with our talent, how to do it, and when to do it, and must have practice in order to do it efficiently.

Wide World Photos

A Natural Gift Developed

Marian Talley has exceptional talent as a singer, but if she had not given her voice careful training thousands would not have listened to her in person or over the radio.

Limitations may suggest environment; but, instead of being external, they are rather those elements within ourselves, those facts of our own being, which hinder us or prevent us from doing certain things. If our talents represent what we can do, limitations may represent what we can't do. Psychologists tell us that some people are afflicted with an "inferiority complex," and we have all seen sufferers from physical defects. Grant was a military genius, but as a president he was a failure because of his lack of understanding of human nature.

What advantages may result from one's knowing that he possesses distinct talent? distinct limitations? Against what dangers might one need to guard himself in either case? If one suffers from an "inferiority complex," is there any hope of his getting over it?

Objectives are those aims in life which one sets out to realize. Does he wish to be rich? Then he is likely to ask of almost every act, "Will it pay?" Does he wish learning? Then he may strive, though "poor as a church mouse," somehow or other to get a college education. Henry Ford believed

that he could make a cheap automobile. He then devoted himself so utterly to perfecting that automobile that his neighbors thought something was wrong with him. Yet he made millions of automobiles and became one of the wealthiest men in the world. Indeed, almost every successful man has had some similarly definite objective in life.

What did David Livingstone set out to do? Do you consider him a successful man? By what standards should we judge success? By what standards *do* we judge success?

Last, but not least, in our list are *desires*. They are the impulses or wants which lead one to seek to possess or enjoy particular things. Our first is the instinctive desire to live. In order to do this we must have the necessities of life — food, clothing, and shelter. When those wants are met, we strive for conveniences and comforts such as a desk, telephone, or house decorations. One who has the so-called comforts may set out to supply himself with luxuries, such as lavish entertainment, automobiles, butlers, and a hundred other things that add to his pleasure or gratify a whim.

What does one want who has everything money can buy? Is there anything that money cannot buy? Is it selfish for one to want a good education?

3. How We Use Our Time and Strength. — Even our necessities do not grow on bushes, waiting to be picked. The ordinary person spends, on the average, one third or more of his time *working* to supply his wants. The work which he does means progress to mankind, for he eventually finds newer and quicker ways of doing his tasks. If civilization is "the visible progress of mankind," work is indeed the creator of civilization.

Our conception of civilization changes. In primitive days the code was, "Every man for himself." To-day men often think they act chiefly on that principle, and if they are honest, do not hesitate to admit it. But while doing that very thing they are probably helping to supply the wants

of one another. Each man is dependent to a large extent on the labor of thousands of other men. No matter how much or how little any one produces, it is the result of some form of work. It may be mental, such as that of the business man, teacher, or lawyer, or it may be physical, such as that of the miner, farmer, machinist, or carpenter.

Courtesy of Goodyear Tire and Rubber Company

A Stage in the Making of Tires

They are "cured" in large steel molds or "pits" under steam and pressure. If it were not for the work these men do some people would not be riding in automobiles.

Mention five examples in your community of work done for pay, which, at the same time, was of benefit to the community. Would your community suffer if on a single given day nobody in it worked? May play be properly referred to as activity? What is the difference between play and work?

The way men use their time and money differs very widely. Some use all of both they can possibly spare to have a "good time" to-day, and look forward to nothing. Laziness and

unemployment, we may add, are the germs which produce a great part of all the trouble in the world. There are always drifters who live on aimlessly, wanting little and working less. They live on what others are willing to give them. Others are devoting themselves now to gaining an education. This is time and money well spent, even though it means sacrifice and hard work, for it leads to material, mental,

Courtesy of National Electric Light Association

LEARNING WHILE ON THE JOB

Progressive corporations often offer special instruction to enable their workers to become more proficient. These men see a chance to improve themselves even though they have already had considerable schooling.

moral, and spiritual well-being. Still others, who are now standing on their own feet financially, are looking ahead and saving their surplus for a time when it may be needed.

Show by a table, graph, or diagram how some grown person of your acquaintance spends the twenty-four hours of a day; how you yourself spend a day. How large a fraction of the day, in each case, is spent either in work or in qualifying for more efficient work? Has any one a right to ask for more than a fair chance to make the most of himself?

4. Economics, the Science of Work. — Man's knowledge of himself and his surroundings has been classified into many kinds of sciences. *Physical* science is knowledge about the forces and elements of nature. It includes such subjects as physics and chemistry. *Natural* science is knowledge about living things. It includes botany and zoölogy. *Social* science is knowledge about the relations of men with one another. It includes history, civics, sociology, ethics, and economics.

History is a record of the activities and thoughts of men, showing how the past has led up to the present. *Civics* is the study of the rights and duties of citizenship and the work of the government. *Sociology* is the study of the association of people with one another in social groups, such as the family. *Ethics* is a study which deals with the morals and conduct of people.

Economics is the study of the relationships existing among men in regard to their work. It is the scientific discussion of the ways by which men make a living. It is scientific because it brings out all the underlying laws and principles which govern such activities. It is a social science because it deals with the relationships of one group of men with another, and shows how one factor of progress depends upon another. It includes the study of men's wants, the ways of producing and disposing of goods, finance, markets, tariff, foreign trade, and the relations of the government with industry and business.

Look up the derivation of the word "economics" and consider whether its present meaning has any logical relation to its origin. Show at least one relationship between economics and each of the other sciences mentioned. Economics used to be called "political economy." What objection do you see to the use of the latter term?

5. Economic Problems in American History. — Just what is a problem, do you ask? The word does not necessarily mean a mathematical question to be worked out —

it may be a proposition of any character which needs to be solved. We are concerned with those having a notable economic effect.

If any one doubts the importance of economic problems in matters of government and politics, let us point out from our own history some of the ways in which economic influences have determined the history of a nation. We are a young nation, comparatively speaking, and so the working of these forces is easy to observe here. We have been less restricted by inherited customs and institutions than those peoples whose histories go far back in the centuries.

The very settlement of the American colonies was largely an economic movement. Most of the early settlers in all except three or four of the thirteen original colonies came here to improve their financial condition. The American Revolution was at least partly an economic movement. The regulation of trade and manufacturing in the colonies by the English Parliament had much to do with the stirring up of opposition to the mother country.

The making and adoption of the Constitution itself had at the bottom an economic motive. The business interests wanted a central government that had power enough to keep order. The Constitution was forced through against the desire of the farmers. The determining factor in the development of the nation was the expansion over territory to the westward. Surely that was an economic movement.

The Civil War, which settled the political question of states' rights, was an economic struggle as well. The South said that slavery was economically necessary and the North believed it morally wrong. If southern economic life had not seemed to depend upon slavery, it would have been easier for the South to see the evils of the system. If the North could have found ready use for slaves in its factories and on its farms, it could not have been so easily convinced that slavery was wrong.

Almost all the great questions which have divided us since the Civil War have been economic. The tariff, the use of gold and silver as standard money, the regulation and controlling of business enterprises, have all been economic problems. So are the railroad question and most of the

Courtesy of Roanoke Chamber of Commerce

A Source of Electric Power for a City

The problem of providing this kind of power and of regulating the corporations which furnish it did not exist half a century ago but now demands a great deal of attention. Fortunate is the city that gets its electric power cheaply.

other reconstruction problems growing out of the World War. Take economic questions completely out of our political history and there will not be much left.

With the Industrial Revolution, which started in the second half of the eighteenth century, came the division between the capitalist and the laborer — the employer and the employee. Some of the biggest problems of to-day

arise in the effort to avoid unpleasant situations coming from these relationships.

Every time there is a presidential election, we hear about our economic problems. The platforms of the various parties are drawn up to influence the voters — and the platforms usually deal with economic questions. The election

Ewing Galloway

UNTOUCHED NATURAL RESOURCES

The two veins of coal shown in this picture are supposed to contain 10,000,000 tons. Some day the United States may need to use this Alaskan source of supply.

itself becomes a sort of economic problem, for many people let themselves worry more or less about the effect which the election will have on business.

Can you mention any great events or policies in American history that have no economic bearing?

What were the chief issues of the presidential elections of 1860? 1896? 1912? 1928? To what extent did economic conditions or influences enter into each of these contests?

To what extent did economic conditions lead up to the World War and how did they help to bring peace?

Make a list of ten important present-day problems. To what extent are any of them economic?

6. Why We Should Study Economics. — Not all men work solely to gain necessities, comforts, or luxuries. Some men work for power or fame, and some for the betterment of their fellow men. Engineers plan the construction of large buildings, long bridges, or canals, anticipating recognition by the public as one great source of reward. Such work, however, even when purely selfish in its nature, affects civilization in that it may add to the progress of a community or even of a nation. The reasons why men do the things they do and how they do them will underlie everything we consider in this book.

The value of such a study is beyond measure. It shows the bearing of one occupation upon another — our own or some one else's. It acquaints us with the methods of industry, so that we can better understand the problems that we and other people face in earning a living. It explains the part the government plays in our economic life. There are always problems to be solved which affect whole nations, and even many nations at once. To understand why such things happen or have already happened, one must know the principles of economics.

See if you can make a better definition of *economics* than this book gives. Should economics be a required subject in high schools? If economics helps men to satisfy their wants, will it teach them selfishness? May a person who is perfectly contented with his present condition be a good citizen? What other qualities should a good citizen possess besides the ability to make a comfortable living? Do making a good living and making a good life go hand in hand?

There are forces in life which will either mold our own destiny or help us mold it for ourselves — environment, talent, limitations, objectives, desires. Unless we want something that we don't have, and work to get it — be it a material, mental, or physical want — we don't make things better for ourselves and are not likely to improve conditions for any one else. Economics helps us to make our wants wise ones and to know how to proceed intelligently about satisfying them. Indeed, the one who understands economics can hope with much more assurance to be "master of his fate" than one who knows nothing about it.

Both in understanding society and in helping ourselves, economics is really worth while.

Special Studies

The Practical and the Educational Value of Economics
The Economic Background of the American Revolution
The Economic Background of the Civil War
The Economic Background of the World War
Economic Questions in American Party Politics

Reference Readings

Carver, *Principles of Political Economy*, Chapter 1
Clay, *Economics for the General Reader*, Chapter 1
Ely, *Outlines of Economics* (Third Revised Edition), Chapter 1
Marshall, *Principles of Economics*, Book I
Marshall and Lyon, *Our Economic Organization*, Study 1
Seligman, *Principles of Economics*, Chapter 2
Seligman, *Essays in Economics*, Chapter 9
Williamson, *Readings in Economics*, Selections 6 and 48

CHAPTER II

MAN AND NATURE

O good gigantic smile o' the brown old earth.
— BROWNING

Nature has supplied the raw materials of every single thing upon which the activities of people in earning a living are based. Man does not create the things by means of which he lives, whether in poverty or in comfort. The best he can do is to help Nature create those things or to adapt them for his use after they are created. Let us trace briefly some of the notable steps in man's progress in such undertakings.

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7. Nature's Gifts to Mankind. — Nature's gifts have a twofold purpose — to supply beauty and to furnish the world with life and comfort. She has given us countless things that are beautiful in the world — the trees, the birds, the sky, the fields. Yet there are people, like the coal miner, whose environment is such that they can see only her dark and ugly side, though they would really appreciate the fragrance of a sun-kissed rose or the thunder of the sea.

Nature has supplied us with water in the form of springs, rivers, lakes, oceans, and rain. We have developed the use of water for transportation, power, sanitation, irrigation, and in many other ways. We also use the fish in the water for food. But the only time some of us realize the importance of water is when we are deprived of it.

Nature gave us the products of the soil. The result is a great variety of tempting foods, medicines, scientific farming, houses, landscape gardening, and the like — we even make many of our clothes from products grown directly from the soil. Besides land and water, Nature has given us air, heat, and light, without which we could not live.

One of the factors that determine a nation's progress is its geographical situation, as we have already noted (§ 2). This includes climate, rainfall, and the condition of the soil. Lack of rainfall means few or no crops. Varying or extreme climatic conditions affect both the products of the soil and the activities of the people. You couldn't raise oranges in Alaska, any more than you could sell snowshoes in Florida.

One of Nature's Beauty Scenes

Is anything much more attractive than a fruit orchard in full bloom?

The presence or absence of means of transportation, irrigation, or water power affects profoundly a nation's welfare.

Without Nature man would not be in existence. Even in this modern age, when machines have taken the place of human labor and man is continually triumphing over the crude and undeveloped methods of his forefathers, we can realize how necessary are Nature's gifts to us. Without the air, sunshine, water, lumber, mineral deposits, and countless other boons supplied by Nature, man's wonderful inventions

would have been impossible. To build a handsome, imposing edifice we must go down to the earth and fashion it out of the trees, the ores, the rocks, or the clay.

High civilization in ancient times appeared first in semitropical regions. Why do you suppose that to-day it is found chiefly in temperate climates? Mention five gifts of Nature which seem to be intended solely or mainly to add beauty to our lives; five whose

Drying Walnuts

Southern California offers the growing conditions and dry climate that are necessary to successful walnut production.

usefulness seems to be solely material in character. Name some regions where men now live which were previously unsuitable for human habitation. How were the natural obstacles overcome? Was it worth while? Define *progress*, as applied to man and society. Are civilized people happier than uncivilized people?

8. Man's Understanding of Nature. — Man has not always understood Nature. People once were so frightened

at an eclipse of the sun that they thought the world was coming to an end. As we learn from mythological tales, the ancient Greeks and Romans made gods of the elements or forces of nature and both feared and worshiped them.

A truer religion has taught man to worship the Creator instead of the things He created. We know that the sun is there to supply heat and light, and that the sea is not there to swallow people up. Many scientific discoveries have helped man to a better understanding of Nature. Newton, for example, discovered the law of gravitation by which we learned why men stay on the round earth without falling off.

Name some other notable discoveries. Connect some accomplishment or idea with the name of Copernicus, of Galileo, of Harvey, of Einstein, of Millikan. Does a country need anything else than abundant natural resources in order to become great? Why are not South America and Africa centers of world power industrially?

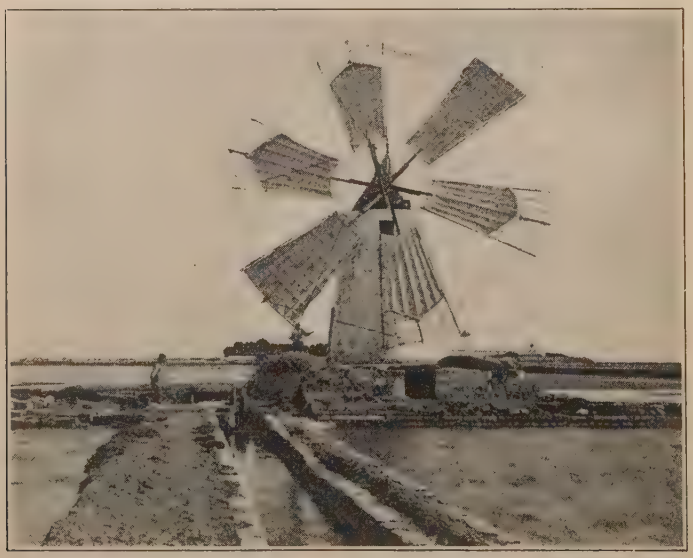
A Totem Pole

Primitive people expressed their religious feelings in ways that seem queer to us. Animals and birds had a part in their quaint expressions of reverence or worship.

The wind, the rain, the power of water — all are natural forces, without which man would not have reached his present state of progress. To run a mill, man must have power. At first, he used this power just as it came to him, but to-day we have not only wheels turned by the force of wind or water, but high-powered electric

dynamos, set in motion by water-falls or by steam, which itself comes from water and coal.

Why are so many mills and factories by the side of rivers? Why are railroads similarly located? Do climatic conditions, rivers, and the like, influence individuals to-day in the selection of homes as well as of places of business? Specify valuable steps in industrial progress that have been made possible by man's becoming acquainted with steam, electricity, and gas.



Wide World Photos

AN OLD-TIME SOURCE OF POWER

The power supplied by this Italian windmill is used for pumping water into the basins where it evaporates and leaves its deposit of salt.

Gradually, man has solved many of the problems that once vexed him. But when these problems were solved — and sometimes in the very process of solving them — new ones appeared. We know something about harnessing water power, but who shall do the harnessing, private corporations or the government itself? We know how coal is formed and how valuable it is, but who shall dig the coal,

and how much of it, and how much should they get for it? This is where the study of economic laws comes in. You can see that economics is not such an exact science as physics, because it deals with the actions of men, which are apt to change and vary a good deal.

Mention some forces of nature whose activities men do not, at least fully, understand to-day. Has any progress been made toward controlling them? How should we go about obtaining such an understanding?

9. Wants and Goods. — The gifts of Nature have been plentiful and were at one time freely given. About the only thing that is free to-day is the air of the great outdoors. To satisfy wants we have to contribute effort or labor, or money to pay somebody else for his effort or labor.

Anything that satisfies a want we call a *good*, in the economic sense, whether it is good in any other sense or not. All goods are divided into two classes — free goods and economic goods. *Free goods* are goods that exist in such abundance that a person may have all he needs by merely taking them, and so are not bought or sold. Air, summer sunshine, daylight are usually free goods. Once all natural resources were free goods.

Economic goods are goods which exist in limited quantities, or which somebody has appropriated for his own gain, and so have to be bought and sold. Any commodity that is not free for the taking will serve as an example — eggs, books, or horses. Many things which at one time were free goods have become, because of their many uses and value, or the difficulty of obtaining them, economic goods. Trees, fish, and coal, for instance, illustrate this change.

Is air always a free good to-day? water? When the author first saw the sign, "Free Air," at a garage, it struck him as funny. Why did he laugh at it? Was that air free? Give five examples not mentioned above of things which are free goods or were so at

one time. If they are no longer free goods, why not? Mention five "goods" in the economic sense which are not "good" for you in some other sense.

In his knowledge of ways to use Nature's gifts in satisfying his wants, man has developed from the crude, primitive hunter to the progressive, modern producer. His economic development was in the form of five stages:

Keystone View Company

A Modern Survival of Primitive Life

This is an Alaskan fisherwoman.

1. The hunting and fishing stage
2. The pastoral stage
3. The agricultural stage
4. The handicraft stage
5. The factory stage

It would be useless to try to pick out definite dates at which any period ended and the next began. In fact, a period did not end. It merely merged into the next one or continued side by side with the later ones.

10. The Hunting and Fishing Stage. — In this early stage, man depended wholly upon Nature for his subsistence. He got his clothing and much of his food by hunting wild animals. The meat he used for food, and the skins for clothing and for shelter in the form of tents. Men also lived in caves. If a man lived near water, he might catch fish. Fruits, berries, roots, grains, and other eatable plant life completed his bill of fare. Since man's primary want was food, and he had little else to do except to get it, the situation might have been much worse. But think what it would mean to-day if we had to depend for our meals upon even a fishing rod and a gun!

Even in this primitive stage, the use of weapons became common. When man learned that he could not overcome wild animals by his hands and muscles alone, he began to hunt for some means of assistance. The simplest weapon was a stick, and in time, a club. Knowing that rocks were more effective than wood, man combined the two and thus made the first stone hammer. Hunting was much easier after the spear was made, and still easier after the invention of the bow and arrow, for then man did not have to wrestle with the animal, but could stand at a distance and attack the beast.

To what extent was man superior to the animals with which he associated in primitive days? inferior? Is it true that "man is the only tool-making animal"? Do animals do without tools any of the things for which men use tools?

11. The Pastoral Stage. — The pastoral stage marked the domestication of animals and represented a long step forward in man's conquest of nature. It had four results which are important economically — greater food supply, more materials for clothes, improvement in the mode of transportation, and the definite establishment of the idea of private property.

When primitive man found that he could master animals, he set out to employ them for his personal needs. In the case of dogs or horses, they might have been domesticated by kind treatment. As to sheep and goats, however, it is quite likely that a man got a herd together and simply would not let them get away from him.

Are such animals as the bears of Yellowstone Park and the elephants and monkeys of our zoos and circuses domesticated?

After animals became tamed, they supplied more food. The man did not have to go hunting to get the animal. He had only to go among his sheep and goats and select what he wanted. In addition to killing animals to get food or clothing, a man could use them for pulling rude sleds or carts.

When man began to keep sheep and goats in large herds, he also began to live a different kind of life. He stayed in one location, for a time at least, as long as he found good pasturage for his flocks and herds. They also had to be guarded and otherwise cared for. A man felt distinctly that they were his, and not some one else's. Private property was thus definitely asserted.

A Pastoral Scene *Keystone View Company*

This picture was taken only a few years ago in Yugoslavia but it suggests one of the early stages of human progress.

There began to be substituted for the old fashion of killing captives taken in war the principle of putting them to work. A captive was seen to be of greater benefit in helping to do some necessary work than in being put to death. Thus slavery began — at that time it was a step *forward* toward civilization.

Find examples in the Bible of people living in the pastoral stage. Does your study of geography tell you of any people to-day who are

still living in the two earliest stages? Was either of these stages a feature of the history of the United States?

It is likely that by the time man reached the pastoral stage he discovered the use of fire. No one knows just where or when or how this occurred, but its vast importance is plain. At first, fire was used primarily to supply heat. It is probable that the art of cooking was discovered accident-

PRIMITIVE AGRICULTURE *Keystone View Company*

People in Egypt probably plowed in the same way when the great pyramids were going up.

ally. Some primitive man may have dropped a piece of meat into the fire, and because he didn't want to starve, may have eaten it. Finding that it tasted better that way, he tried other foods and smacked his lips in enjoyment over them. Another use of fire was for the making of tools. Although crude in form, they were a great help to primitive man. Some of the early tools were knives, hooks, and arrows — the easiest implements to make. A fire, too, kept

away wild animals at night, and its cheerful light must have been most welcome to those used to the universal darkness of those early nights.

Name as many uses of fire as you can. Is there any industry or occupation which could be carried on without it?

12. The Agricultural Stage. — After fire had been introduced, man could make not only knives and cooking utensils, but also implements to work the soil. We may laugh at them to-day, but they were the forerunners of our modern tractors, plows, and reapers. These early agricultural tools were of immense importance in man's economic progress. They helped man assume a new control over Nature, this time over plant life. At first he had taken from the soil whatever he could find. Now he learned to raise his own crops. Thus he did not have to go far to find them when he needed them, and was more likely to find them in the quantities he desired.

Courtesy of International Harvester Company

PLOWING BY MODERN METHODS

Contrast the way the work is done in this picture with the one on the preceding page. Unquestionably the machine does its work more thoroughly, quickly, and efficiently.

Most notable of all results of the agricultural stage was the fact that men had to settle down in one place. With large flocks and herds to look after, and to find food for, there had to be much moving about. However, it took

months for crops to grow, and if one went away and left them, they might not be there when he came back if some one else happened to lay eyes on them in the meantime. Besides, crops had to be tended and watched. Permanent homes for the farmer and his family and helpers, whether slaves, serfs, or freemen, had to come. Thus men began to form new and more lasting relations with their neighbors.

Keystone View Company

AN EARLY FORM OF MANUFACTURING

These natives of Africa are weaving mats. The picture is modern but this kind of work was one of the earliest methods of manufacturing used by man.

This stage continued in much of the known world till almost the close of the Middle Ages.

13. The Handicraft Stage. — Side by side with the later part of the age of agriculture began the age of handicraft manufactures. Some simple handicraft, such as weaving and the making of pottery, was early practiced. The next step came when people began to make things not only for their own use but to trade with others. Cloth, lace, velvet,

steel weapons, and leather came to be made very skillfully by workers proud of their products.

This early form of manufacture was that which the word itself actually means, making by hand. Simple tools that could themselves be put together by hand were of course used in weaving cloth and in producing other articles.

In order to carry on this kind of industrial life people must live together. The men or women whose entire working time is spent at weaving must be able to get some things they need from some one else, and so we find *division of labor* beginning. One man or one family produces something that is needed in the community, some other family produces something else, and they exchange. Town life is absolutely necessary for this kind of process to go on. Labor continued to be carried on, as it had been in earlier times, as a part of the regular family activities or in close connection with the home. For this reason we call this the *domestic system* of industry.

Ewing Galloway

SPINNING IN COLONIAL DAYS

Here was division of labor, for the women, not the men, did the spinning. This is an example of the domestic system of industry.

After towns and cities grew up, trade, not only within these communities, but between one town or city and another, came about. In fact, so extensive a commerce was built up even in ancient times that the Phœnicians, living at the eastern end of the Mediterranean Sea, were famous all over the world as seamen and traders. Later, in the Middle Ages, definite trade routes hundreds of miles long followed the risky paths between northern and southern

Europe and Asia or northern Africa. At length great trading companies were formed, of which the British East India Company and the Hudson's Bay Company are notable examples.

14. The Industrial Revolution. — Thus matters stood for centuries. Flax was woven in England in 1700 in about

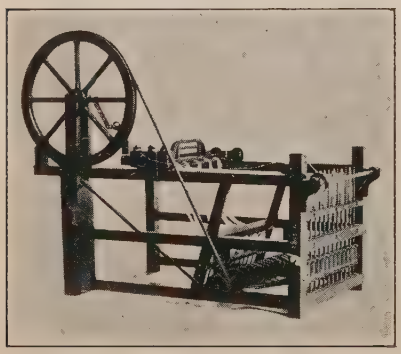
Ewing Galloway

GUTENBERG'S PRINTING PRESS

Gutenberg's invention preceded the Industrial Revolution by 300 years, but it helped greatly to bring about the progress of knowledge which made the Industrial Revolution possible. This is a picture of a twentieth-century model of the original press.

the same way as in ancient Babylon. Then followed an era which is marked by such tremendous changes in the methods of carrying on industry and by such far-reaching results for our economic system that we speak of it as the *Industrial Revolution.* It was not a war, but a series of inventions and discoveries, perfected forms of which are the foundations of our industry to-day.

This era began in England soon after the middle of the eighteenth century. English commerce had become world-wide. With wider markets came a greater demand for manufactured products. Hargreaves and his spinning jenny (1764), Arkwright and his water frame (1769), Crompton and his spinning mule (1779), and Cartwright and his power loom (1785) made it possible for one machine to do the work of two hundred men. James Watt in 1769 made the steam engine practical for industrial use. Other inventions followed which were of great importance, not the least of which was the Yankee Eli Whitney's cotton gin in 1792.



Ewing Galloway

THE HARGREAVES SPINNING JENNY

This was one of the inventions that revolutionized industry and started the factory era.

Aside from the inventions themselves, the Industrial Revolution had many far-reaching results. It marked the rise of the *factory system* and the decline of the domestic system of industry. Machine power in many places was quickly substituted for hand power. Factories, in which machines could be placed and which called for large numbers of workmen, were completed. The division of labor, so that one man worked one machine and manufactured only a part of an article, was carried to a point that had never before been imagined. Great cities grew up in England — Manchester, Birmingham, and others, where only the country had been. The mining of iron and coal received a wonderful impetus.

With the invention of power-driven machinery came a lower cost of commodities, resulting from the fact that they were

produced in such great quantities. The distinction between the employer and employee became marked, with a separation of the two socially as well as industrially. The employers who owned the expensive machinery tried to get cheap workers and employed many women and children. Some of the serious problems before us to-day had their beginnings with the Industrial Revolution.

The transformation which our country underwent was both like that of England and different from it. Industrial progress has been as great here as across the water, but we had no long industrial history before we became an independent nation. Therefore there was not so much to upset in this country, and no widespread industrial life to overthrow when the change occurred. It at least seemed more gradual. It was not so much of a "revolution" in this country as an "evolution" — a growth instead of an overturn.

The first four industrial stages went on at the same time in the early days of America. Hunting and fishing, cattle-raising, farming, and domestic industry were carried on side by side, although farming occupied most of the people. The United States was almost wholly rural when it became independent. England tried to keep at home the inventions which were revolutionizing her industry, but could do so only for a while. In 1790 Samuel Slater began the new era in manufacturing in this country by setting up a cotton mill at Pawtucket, Rhode Island.

The so-called War of 1812, by ruining New England commerce, made it necessary for many people to take up some other line of interest, and many turned to manufacturing. Francis C. Lowell, who founded a mill at Waltham, Massachusetts, in 1814, is looked upon by some as the father of the American factory system. But manufacturing did not develop as a dominant industry until after the Civil War.

15. Coöperating with Nature. — Man's economic development up to the time of the Industrial Revolution was indeed slow. But when he found that he could add to Nature's

output by the aid of machines, his progress became more rapid. Many new products became common which had previously been undreamed of. Locomotives, electric lights, and radios once might have been looked upon as magic or the work of the evil one. Formerly, there was much wastage in the use of natural resources. Now, however, that

Courtesy of Reclamation Service

WAITING FOR WATER

This picture was taken in Oregon, but several western states could show a similar scene.

waste is turned into valuable by-products. Some well-known examples are coal tar, coke, cotton-seed oil, and paraffin.

We have also learned how to add to Nature's output in a scientific way. Our progressive farms are run methodically. They are watered, if necessary, by irrigation systems. By rotating crops and by the proper use of fertilizers, the soil is saved from the exhaustion of its needed elements and is kept productive year after year. New ideas are con-

stantly appearing in farming as well as in every other industry. Nature lovers, of whom Luther Burbank was an outstanding example, have actually produced new varieties of fruits and flowers, and made long-used types grow larger, better flavored, or more beautiful.

Ask a biology teacher the meaning of "natural selection" and "artificial selection" in the development of plant and animal life.

Courtesy of Reclamation Service

AFTER WATER CAME

This is an apple orchard in Washington. Compare it with the picture on page 30.

By selecting and developing varieties of grains or vegetables suited to particular climates or soils, the range of growth of various crops has been extended far beyond the natural limits of their habitation. In a similar way the thin and bony wild hog has been developed into the solid, substantial porker of to-day, and cows which were doing well when giving eight quarts of milk a day became the grandmothers of cows that would be ashamed to give less than twelve or fourteen quarts. By such means the food

supply of the people is kept more abundant than ever and a nation's wealth notably increased.

Man no longer waits for the earth to supply him with his needs. He goes to work and gets all he can in as short a time as possible by adapting the latest time-saving devices to his particular undertaking. Chemists have pried into the mysteries of Nature until they have learned so much about the elements which compose the things we commonly use, that in some cases they can put them together in close imitation of the way Nature herself might do it. In this way they have reduced to some extent the dependence of man upon particular sources of commodities.

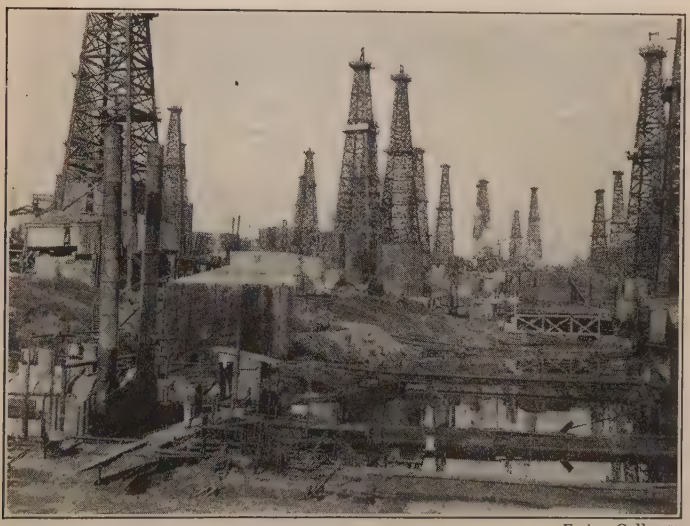
Keystone View Company

LUTHER BURBANK

Burbank developed, besides many other things, an eatable spineless cactus. Some of his achievements on his California ranch were striking examples of what man and Nature can do when they work together.

As Dr. E. E. Slosson says: "The chemist has upset the geography that we learned in school. For when we were children the natural products were duly distributed among various countries by what was assumed to be the immutable law of nature. . . . [Now] if the moving-picture producer finds that Japan is charging him too much for the camphor for his films, he may buy it from Germany where it is made from American turpentine. The silkworm of Japan and the cotton plant of Mississippi are hard pushed by the competition of the wood pulp of Sweden. . . . Does a given

sample of butter come from a cow or a coconut? . . . It may have come from coal. . . . [If so,] nobody knows but the chemist who made it and maybe he won't tell. Anyhow, it's nobody's concern if the chemist has done his business well enough so the product is correct." The synthetic chemist coöperating with Nature seems almost like a magician.



Ewing Galloway

A California Oil Field

California, Texas, and Oklahoma produce most of the petroleum of the United States at the present time.

To what extent does man's intellectual progress parallel his advancement in material things? Does his mind improve as his material life becomes more comfortable, or the reverse?

Is there any reason why farmers should be more conservative and less open to new methods than other classes of workers? Are they?

16. What Nature Has Done for the United States. — The United States has been exceedingly favored by Nature in almost every respect. Stripped of all its man-made wealth, it would still be richer than any other country. We have

over 3,000,000 square miles of territory, stretching from one great ocean to another. Within this area may be found almost every kind of soil and mineral resource necessary to man. Most of this huge territory is in the temperate zone, and the world has never produced a great people who lived to any great degree outside of temperate climates.

Ewing Galloway

A Vast Middle-West Cornfield

The girls and their teams are running cultivators through for the last time.

We have all the harbors needed even for so vast an area. We have 18,000 miles of navigable rivers, besides those smaller streams which can furnish an unmeasured amount of power. The fertile Mississippi valley is the most productive region in the world. It raises three-fourths of the world's cotton, three-fourths of its corn, and from one-fourth to one-third of the world's wheat, which is more than any other single country produces. The United States is also plentifully supplied, even yet, with forests and animal life,

although each has diminished in abundance since the *Santa María* and the *Mayflower* reached the shores of America.

It has been asserted that the climate of the United States is ideal from the standpoint of civilization. Do you agree?

On a map of the world extend the northern and southern limits of the United States across the Atlantic and notice what Old World points are in the same latitude. Find a European city in about the same latitude as Boston; New York; Washington; Richmond; Savannah; Miami. Find, if possible, an Asiatic city in the same latitude as Los Angeles; San Francisco; Portland; Seattle.

17. Wasting Nature's Gifts. — From the very first time that man was put on earth, he has shown a tendency to waste anything that apparently is plentiful. Many natural resources have been wasted to such an extent that there is a question now as to whether some of them are not just about used up. The United States is a good example of how men have been careless with their use of the natural wealth of their country. Our people have felled trees recklessly, sometimes for no other reason than to chop for exercise. They have hunted down the native animals for mere amusement; they have drained many oil and gas fields; they have relieved the earth of immense quantities of coal, iron, gold, silver, and other minerals, without even trying to do a thorough job of it in one place before going to work at another. Why is it that until the last two decades our natural resources were thus abused, with virtually no thought of whether the next generation would have any of them to use at all?

One reason is greed. Some people, as long as they can add to their own profits, care nothing about those who come after them. Such men do not care how many trees are cut down or whether they use every bit of the lumber from the trees which they cut. Some have no more hesitation in appropriating the use of a river than they would in changing the location of a drain in their back yards. The low supply of natural gas in Pennsylvania, a vast array of stumps

where once were wide-reaching forests in the South and in New England, streams dry in the summer and flooded in the spring, all testify to the ruinous way in which our resources have been used.

Other people did not realize what they were doing. Ignorance was their fault. It did not cost much to cut good timber, to take out the coal which required little trouble

Ewing Galloway

WHAT WAS LEFT AFTER A FOREST FIRE

Decades will not replace the damage done by this disaster.

to get, or to let the gas jet burn day and night, and so they did it.

18. Conservation. — Then, apparently all at once, we began to hear of conservation. *Conservation* is the preserving of any commodity for future use, coupled with economical use of it in the present. It is the opposite of waste. The Creator doubtless put minerals in the earth, power in the streams, and trees in the woods to be of use to man. It must not be thought that conservation requires us to refrain entirely from using these marvelous gifts of nature.

It does mean, however, that if we use them, we must not waste them and must, if we can, replace what we use. Even an entirely disinterested man might reasonably object, for instance, to a policy of completely closing up the coal fields in Alaska and not allowing the government or private individuals to make use of them at all. But it is not necessary to let private individuals, with money or without, go into the coal fields and help themselves.

We can spread among the people a knowledge of the principles of conservation. We can plant trees, as our national Forest Service and similar agencies of the states are doing, to replace those which are cut down. We can see that trees which have taken decades or perhaps centuries to grow are not turned into ashes by the carelessness of the cigarette-smoking camper.

Courtesy of National Lumber Manufacturers' Association

FALLEN MONARCHS

An early stage in lumbering. We need this wood, but think how long it took these trees to grow and how important it is that others should be growing to replace them.

Where human labor can make land fit for use, the work should be done. Irrigation projects in the western deserts, such as are represented by the Shoshone Dam in Wyoming and the Roosevelt Dam in Arizona, have helped to make the desert "blossom as the rose." Swamps have been drained in the Florida Everglades, and the low lands near the mouth of the Mississippi and elsewhere. Laws have been passed which regulate the amount of coal to be taken from a mine and the methods of mining which shall be employed. We can construct locks and dams in many of our rivers and make it possible for traffic to be developed that will carry millions of dollars' worth of nonperishable

goods. All this makes the country as a whole so much the wealthier.

The presidency of Theodore Roosevelt marks the beginning of a change in the attitude of both the people and the government in this tremendously important matter. He "spoke out loud" about the need for conservation. There was no longer any excuse for not knowing what conservation means or what the results would be if it were

Ewing Galloway

REFORESTATION WORK

These trees were planted by the Pennsylvania Department of Forestry in 1906. If no harm comes to them they will furnish considerable lumber in the future.

neglected. While the moneyed men who cared nothing for the future complained that their profits were interfered with, new laws were made and old ones strengthened to prevent the abuse of our natural resources.

We also have laws which prohibit the killing of many kinds of game except in specified seasons. We have national parks where some of our native animals as well as the natural beauty of our country are preserved. Gifford Pinchot of Pennsylvania, President Van Hise of the University of

Wisconsin, and numerous others before President Roosevelt had believed in and urged conservation, but he put the force of his great office behind the movement and changed a classroom theory to a public policy.

Why do you think public opinion was so slow in this country to recognize the need of conservation? In your own neighborhood are there any traces of the waste of natural resources? Does conservation mean sacrifice?

Locate on the map of the United States the principal regions where the conservation policies we have mentioned seem of special importance.

Would it be advisable to forbid the export of natural resources from the country? Can you suggest any economy in the use of natural resources?

The story of man's progress in mastering Nature is at times one of mere "help yourself," bitter struggle, and slow growth from ignorance and misunderstanding upward. But man has discovered, at first slowly, later more quickly, ways to make Nature contribute to his comfort and happiness. The race by turns has been hunter and fisherman, shepherd, farmer, home mechanic, and factory operative, and countless individuals all along the way have continued the old methods while others were learning new ones. Our own land has been bountifully blessed at Nature's hands, but too often have we used carelessly and wastefully her myriad gifts. No longer, however, may we do this ignorantly, and those of us who are good citizens coöperate with Nature instead of destroying the things she prepares for us.

Special Studies

Economic Life in the Book of Genesis
The Natural Resources of Our State
The Natural Resources of Our Community
The Conservation Program of Our State
What Theodore Roosevelt's Administration Did for Conservation
Conservation Problems in Our National Government in the Last Ten Years
Beginnings of the Industrial Revolution in the United States
Famous Characters in England's Industrial Revolution
What Science Is Doing Toward the Solution of Economic Problems
The Colorado River as a Source of Irrigation and Power

Reference Readings

Adams, *Description of Industry*, Chapter 5
Bogart, *Economic History of the United States*, Chapters 1, 10, 11, 12, 13
Bullock, *Selected Readings in Economics*, Chapters 1, 2, 5
Carver, *The Economy of Human Energy*, Chapter 10
Chamberlain, *Thrift and Conservation*, Chapters 7–14
Chase, *The Tragedy of Waste*, Chapters 12, 13
Eldridge and Clark, *Major Problems of Democracy*, Chapter 4
Ely, *Outlines of Economics* (Third Revised Edition), Chapters 3, 4, 5, 6
Ely, Hess, Leith, and Carver, *The Foundations of National Prosperity*
Marshall and Lyon, *Our Economic Organization*, Studies 6, 7, 8, 23
Marshall and Wiese, *Modern Business*, Chapter 1
Marshall, Wright, and Field, *Materials for the Study of Economics*, pages 1–104
Munro, *Current Problems in Citizenship*, Chapter 17
Osgood, *A History of Industry*, Chapters 1, 2, 3, 9, 12, 17
Pinchot, *The Fight for Conservation*
Redway, *Geography, Commercial and Industrial*, Chapters 3, 4
Seager, *Principles of Economics*, Chapters 1, 2, 3
Seligman, *Principles of Economics*, Chapters 3, 5, 6, 7
United States Bureau of Education, *Lessons in Community and National Life*, A–2, B–2, B–5, C–5
Wells, *Industrial History of the United States*, Chapters 10, 12
Williamson, *Readings in Economics*, Chapters 2, 3, 4, 27

PART II: WANTS AND THEIR SATISFACTION (Consumption)

CHAPTER III

WHAT MEN WANT AND WHY

I want the community to protect me, to care for me, to give me an equal opportunity with every other man to secure the good of life. As I wish the community to do for me, so must I also do for it.

— GLADDEN

People make things because they think that they or some other people will want them. Let us consider the nature of human wants and their kinds and extent. In such a study we shall discover certain economic laws that explain the forms our wants take and help us to control them to the advantage of ourselves and our fellow men.

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19. The Nature of Human Wants. — When we want a thing, we seldom bother to reason out why we want it, or whether that particular want has any relation to any other wants. Wants differ from needs in that they include many desires for things which are not actually necessities. Needs represent commodities or services which are essential to decent living.

Wants may be classified in two large groups: *personal* or *primary* wants, which grow out of some inner emotion or bodily demand, and *material* or *secondary* wants, which call for things desirable not for their own sake but because they enable us to gratify our primary wants. Under the first heading we may include physical wants such as those for food, shelter, and warmth. Here also belong our wants for knowledge and understanding. Here too we may place our spiritual wants, which relate to the development of our

own souls or of our relationship to the Creator. We may also specify social wants growing out of our relations with other people and of our desires for amusement and activity. These wants which are so distinctly individual and personal may or may not have a direct bearing on our economic life. When they lead to the secondary wants for

Courtesy of Richman Brothers Company

QUANTITY PRODUCTION

In this great clothing factory, the cutting of cloth for many suits at once is one means of economy and speed. It requires the wants of many people to make feasible the maintenance of such a large factory.

material things in the form of capital or consumer's goods, they do assume a distinct economic interest.

Queer, isn't it? Our whole prosperity and comfort rest upon the production and consumption of economic goods. Yet we want them not for their own sake but because they aid us in satisfying wants which cannot be given any economic measure at all. We want to be comfortable. That want may lead us to get a drink of water, or to get warm by light-

ing a fire in a gas grate or in a coal furnace. Thus we draw upon Nature for the gratification of our comfort. If the weather is disagreeable, we want to get under cover. That means the use of bricks or wood or stone, and thus another set of goods is drawn upon. When we feel a desire or duty to worship, we may wish to attend a church. Naturally, we do not stop to build ourselves churches every time we have an inclination to worship, but somebody made provision at some time for our convenience by making use of material things, and thus employing them to satisfy our secondary want of a place in which some of our primary wants may be attended to.

Why do people want beads, shaving soap, lawyers' services, rugs, stockings, transportation, membership in lodges or clubs, carnations, picnics, vacations? Which of these are primary and which are secondary wants? What primary want does each secondary want assist in gratifying?

20. Wants as the Foundation of Civilization. — People who want nothing or very little improve themselves in the same proportion. Discontent is the first step toward progress. People who are perfectly contented with what they have desire nothing further. Primitive man was satisfied for a time with a cave or a tent made out of the skins of animals. Even to-day there are tribes whose style of living does not differ much from that.

The hackneyed saying, "The more we have, the more we want," sets forth a positive economic truth. When men advanced far enough to build permanent houses instead of movable tents, they wanted to decorate those houses or to plant flowers and vegetables in the surrounding yard. After we used something more than animal hides to protect us from the cold, we liked to have a variety of garments of different colors and sometimes of different cuts and shapes.

When men get in the habit of living permanently in a community with other families, community wants arise which can be gratified much more easily by coöperative

action than if every individual were left to attend to such wants for himself. Then come streets, graded and paved, bridges span the water, and ultimately there are automobiles, airplanes, and railroads to cover long distances speedily.

An important cause of our wants in a progressive civilization is the human desire to exist. Still another is the desire

Wide World Photos

A "Boom" Town of Recent Years

The United States is not the only country which has seen "boom" towns. This one is in South Africa. It will take some years for this town to obtain the paved streets and other community conveniences which its people will want. They can get them much sooner now, however, than in earlier pioneer days.

to have things because others have them. This results in the custom of attracting attention to commodities by advertising. Attractive window displays, samples distributed on the front porches, extravagant language used in newspaper "ads," lead people to buy things that previously they never thought of having.

How many of the various commodities for which we are induced to part with our hard-earned savings really add to

our state of civilization or enlightenment? Perhaps only a small percentage of them have any service in this respect, but the desire for these commodities has helped develop certain kinds of civilization. People to-day want more than those of a generation or a century ago, and they in turn were not satisfied with what their fathers or grandfathers possessed. Civilization is built up on human wants, for they prevent us from getting into a rut and at least keep us active and going in the attempt to satisfy them.

Make a list of ten individual wants which you yourself have experienced to-day. To what extent were these the result of necessity? of association with others? of inducement exercised by some outside influence such as an advertisement? How many of these wants do you think you would not have felt if you had lived in the social conditions that prevailed during Abraham Lincoln's boyhood? Does the increase in human wants have any relation to the development of character?

In considering human wants, we shall find that certain economic laws can be discovered which will help us to understand "what men want and why." We must remember that economic laws are not invariable like those of algebra. Nevertheless, departures from them are not frequent, and what seems like a departure from one law may be merely the operation of another which, in that particular situation, is more effective. When King Richard III cried, "A horse! a horse! My kingdom for a horse!" he was not expressing the normal relationship in value between a horse and a kingdom, but the fact that at that particular moment a horse would have given him greater satisfaction than anything that the title of king could furnish.

Compare economics with some study that may properly be called an "exact science." How many of the social sciences are exact sciences? Does the extent to which they are not exact offer a good reason for not studying them?

21. The Law of Unlimited Extent. — Perhaps first among the laws of human wants is that which declares that *no*

limit can be set to the extent and variety of human wants. There may be a limit to your wants or to mine; but take our two sets of wants together and add to them the wants of many millions of other people, and where are you going to stop? Besides, though our wants may be satisfied to-day, to-morrow we may want the same things over again. Even the savage constantly wants something, and civilization has so enormously enlarged the means of satisfying our wants, and so

TULIPS AND HUMAN WANTS

This tulip field near Salem, Oregon, is profitable to its managers and beautiful to look at, too, at certain times. The climate of this region is very similar to that of Holland, so famous for its flowering bulbs. If it were not for the extent and variety of human wants, nobody would go into such a business as this.

greatly added to the number of things that give us pleasure, that nobody can be sure we shall ever reach the "saturation point."

Even in the case of individuals the law holds good. I bought a mimeograph which was said to be the last word in machines suitable for my work. A year later I learned that a new sort of clamp had been invented which would help to keep the stencil smooth and firm. I had to have it put

on my machine. Mr. Smith thought he had his family all stocked up with clothes for the season, but one day his daughter Peggy dressed up to go to a party. While she stood at the curb waiting for her friend, a passing car threw mud all over her new dress. Disaster, and an unexpected bill for a new outfit! Susie was pretty well pleased with her appearance until she saw Hortense with a stunning new scarf; then of course she had to have one like it. In each of these cases a new, unforeseen situation appeared, and a new want came with it. There is no end to such things as far as we can see.

A certain person once said that as soon as he had saved up $15,000, he would retire and live on the interest of his savings. He now has ten times that amount, but shows no signs of retiring. Can you explain?

22. The Law of Diminishing Utility. — Though there may be no limit to the number and nature of our wants, there is a limit to our want for any one commodity. Suppose you have no bananas, but you like bananas and are hungry. You come to a fruit stand and start eating. One banana tastes fine. The second is almost as good. But by the time you have eaten the fifth you positively want no more bananas to-day, and if somebody forced you to eat a sixth, it might make you sick and might actually cause you to dislike them for a while.

Here, then, is the law of diminishing utility: *the utility of each unit of a commodity diminishes as the number of available units increases.* The statement assumes, of course, that conditions remain the same. You might pay the fruit dealer for a dozen bananas and take them away, on the supposition that to-morrow you would eat some more, but that would not affect the truth of the law as far as to-day is concerned. Custom and comfort require a man to own at least one suit of clothes. Two, three, or even six suits might be handy for him to own; but neither Mr. Rockefeller nor

Mr. Ford buys a new suit of clothes every day. There is a limit to the number of suits which bring added satisfaction, no matter how much spending money a person may have. If each suit is different from each other suit, the reduction in utility would proceed more slowly than if the suits were all alike; but even then one would not care to clutter up his wardrobe with an unlimited number of suits.

A New England Rural Scene

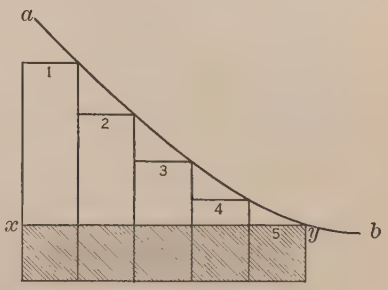
Even this farmer is governed by the law of diminishing utility. A third ox hauling this cart would be in the way and five oxen would be a nuisance.

Illustrate the law of diminishing utility with reference to baseballs, as applied to you, to John J. McGraw, and to Barney Dreyfuss; with reference to this textbook, as applied to you, to your local school authorities, and to its publishers; with reference to silk stockings, as applied to you, to a local storekeeper, and to the manufacturer. Can you think of any seeming exceptions to the law — that is, of cases in which an added number of units increases the utility of any one unit? If so, explain the situation.

In this connection we should speak of marginal utility. *Marginal utility* is the usefulness of the *last* one of a series of units that will be used under given conditions. If the bananas were practically alike in ripeness and size, any one of the five might have been either the first or the last that you ate. One would have been as good as another, and the utility of the last one that you cared to eat would be the measure of the utility of any one banana on that day.

This marginal utility becomes a sort of measure or standard in fixing the price of commodities. Perhaps you would

have paid even a quarter for one banana if no more were to be had; but if the fifth gave you a satisfaction represented by five cents, that is all you would pay for any one banana that day, if you took time to reason things out. All prices are the result of reasoning by somebody. If a dealer guesses too high or too low as to the marginal utility of his goods to his customers in general, his sales or his profits, or both, will be less than if he reasons accurately.



Diminishing and Marginal Utility

Though the measure of the utility of a bunch of bananas to you was the utility of the last one you ate, doubtless the satisfaction you received from eating the five was more than five times the satisfaction obtained from the last one. Let this series of rectangles represent the five bananas, or rather the satisfaction derived from each. Extend the top line of rectangle 5 across the others to point *x*, and you will show by the shaded space below this line, the marginal utility of the series, or the utility of any one if it had stood fifth in the list. The space in the four rectangles above the line *xy* represents the *consumer's surplus*. That means the satisfaction enjoyed by the consumer, or user, through the possession of *all* five units, as compared with the satisfaction reckoned from *each* one as a possible marginal unit.

A consumer's surplus exists much more often than it does not. A person would not bother for instance, to have four or five suits of clothes around unless some added advantage in convenience, neatness, or suitability for an occasion resulted. Therefore they mean a little more than if each suit were merely *a* suit. Yet the usefulness of each suit

simply as *any* suit — its possible marginal utility — is about the only thing the clothing dealer has to go by in fixing his prices for it. As a suit, you would pay, perhaps, no more than $22.50 for it, but unless, when it is added to your wardrobe, you think it is going to give you more than $22.50 worth of satisfaction, you would make few such trades.

Can there be such a thing as a *consumer's deficit?* Is the rate of diminishing utility the same in all cases? Compare in this respect fountain pens, motor boats, handkerchiefs, bread. In any purchase that you have made, have you taken into consideration the principles of *diminishing utility*, *marginal utility*, and *consumer's surplus?*

23. The Law of Economic Choice. — Here we have a law which, like other economic laws, many people follow without knowing that what they are doing has a specific name. If you have two thousand dollars and want a house of your own and an automobile, which would you be likely to choose? The thrill seeker would undoubtedly choose the automobile while the home lover would probably lay by the money toward the purchase of a house. At any rate, you would choose the one which would give you the most satisfaction in proportion to the effort or sacrifice required to get it.

Sometimes the choice might lie between buying just one thing, or getting several things for your money. Then it would be a case of balancing the total satisfaction in the possession of several things against the greater single satisfaction which one thing might give. Even the rich man makes his economic choices. Suppose he is on an automobile tour. Shall he stay in the city to-night at a hotel and take in a show, or go out to White Horse Beach and spend the evening listening to the waves? He has money enough to do both, but all the money in the world will not permit him to be in two places at the same time. Which will give him the greater satisfaction in return for the money and effort either will require?

The *law of economic choice* declares that *one will select those activities or those commodities that give him the most*

satisfaction in return for the expenditure involved. Another way to express the thought is to say that we make our choices so as to secure the greatest economic surplus — that is, we mean to do so. Occasionally, through ignorance or for other reasons, our choices are not very intelligent. Sometimes the choice may mean the selection of one thing in the present and the postponement of others until later. A boy

Keystone View Company

THE AUTO GROCERY

This is a help-yourself service. The customer enters at the rear and pays as he goes out by the front. This seems like going back to the days of the old peddlers. What advantage do you see in it to anybody? This woman is going to exercise her privilege of economic choice.

may be hungry at the close of a day's work, and may also need a hair-cut. There is not much doubt about which economic choice he will make for to-day — a dinner or a hair-cut — and which will be put off at least until to-morrow.

A firm may be considering expanding their plant in Queensbury and also starting a branch factory in Kingston. If their current surplus warrants their doing only one of these this year, the economic choice for them will mean a decision

as to which they will undertake, or, if they decide to do both, which they will do this year and which they will postpone. Satisfaction for them means increased business and greater profits, but the principle of the law is unchanged. Matters of serious and permanent importance must often be decided on the basis of this law.

Suppose you have to earn your own living. Santa Claus gives you $2000 to spend on either a car or a college course. Which would you take and why?

If you had been given $200 to spend when you were 12 years old, what do you think you would have done with it? Would you do the same now? If there is any difference, can you explain it? What instances of economic choice have you or your family made recently?

A person getting a salary of $2400 a year, who knows perfectly well that $100 is due on an insurance policy at the end of the month, puts down $100 as the first payment on a $1200 car. Has he violated the law of economic choice? Why or why not? Do you approve of his action?

24. The Laws of Variety and Harmony. — Another law of human wants important in economics is that of *variety*. If we had enough money to buy five dresses, we would get five different ones. If we buy food, we get potatoes, meat, vegetables, and fruit — we would not by choice live solely on potatoes. We vary our selection to give greater satisfaction. Imagine what it would be like to live on nothing but oranges, or to wear dresses all the time of the same color, same style, same material. The *law of variety* says that *satisfaction is increased by variety in kind, form, or quality.*

Just as we need variety in our daily life, so we need *harmony*. If you have a cloth coat that you like and wish to increase its attractiveness, you might add a piece of fur to the collar or a set of colorful buttons. This added touch of ornamentation might give you greater satisfaction. To attach the fur only to the back of the sleeve or to string the buttons separately around your neck might make you look foolish, but to put them on the coat in suitable places may be the means of greatly improving the effect as a whole.

The *law of harmony*, then, is that *combination of commodities may give greater satisfaction than the same commodities used separately.* But notice: the law says that "combinations" "may." Some things do not go well together — a drunken chauffeur and an automobile, for instance, or certain horizontally striped goods on a fat lady.

Wide World Photos

WOULD YOU GUESS THAT THIS IS A FACTORY?

Los Angeles likes to apply its Spanish ideals of architecture to industrial establishments. This is the plant of the Pacific Goodrich Rubber Company. Here is a fine example of harmony between building and surroundings.

Human wants are many. They concern the comfort of our bodies, our desire for amusement, the development of our minds, and the uplift of our souls. If to say much about wants suggests that life is a wholly selfish proposition, it is nevertheless true that the desire to satisfy human wants has made civilization what it is. Perfectly contented people make little progress. Those whose own wants are reasonably well satisfied can do much more for others than if they were not so favorably situated. Human wants are subject to the laws of

unlimited extent, diminishing utility, economic choice, variety, and harmony. He who satisfies his wants in accordance with these laws will inevitably enjoy a happier and more useful life than he who ignores them.

Special Studies

The Causes of Differences Among Individual Wants
The Wants of John Smith as an Individual; as a Business Man; as a Lawyer; as a Factory Worker; as a Farmer
The Significance of the Law of Diminishing Utility
How to Train Children in Developing the Right Kinds of Wants

Reference Readings

Adams, *Description of Industry*, Chapter 6
Bullock, *Selected Readings in Economics*, Chapter 8
Carver, *Principles of Political Economy*, Chapter 38
Chase, *The Tragedy of Waste*, Chapter 4
Comish, *The Standard of Living*, Chapters 1–4
Marshall, *Principles of Economics*, Book III
Seager, *Principles of Economics*, Chapter 5, pages 70–78, 89–108
Seligman, *Principles of Economics*, Chapter 13
Taussig, *Principles of Economics*, Chapter 9

CHAPTER IV

WAYS AND MEANS OF SATISFYING WANTS

The accumulation of property is no guarantee of the development of character, but the development of character, or of any other good whatever, is impossible without property.

— W. G. Sumner

This chapter is one of the most important in the book. It defines many of the various terms that you will have to understand and use in your study of economics. They are, in a sense, the tools we work with. We shall want to explain also the conditions that govern the satisfying of men's wants and make clear the conditions which most readily promote contentment and prosperity.

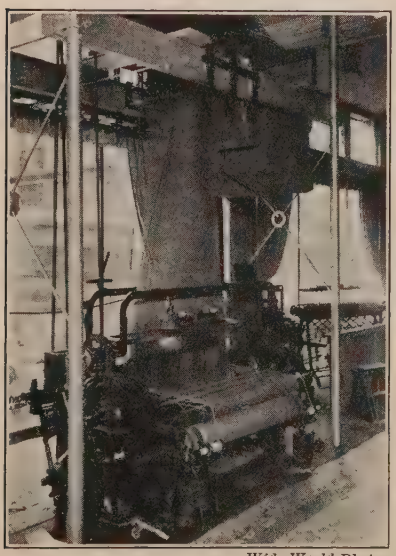
25. Wealth. — When is a man wealthy? We all know the difference between a wealthy man and a poor one, but many think of wealth as the state of having money. It means more than this in economics, however. *Wealth* has been defined as anything that is useful, material, and owned.[1] A man's wealth is the sum of his possessions whose value can be reckoned in terms of money.

To be classified as wealth, a good must be *useful.* If a commodity cannot be used to satisfy some desire, it is not wealth. Sometimes a commodity that is not in one situation classified as wealth may be termed so in different circumstances. You have probably heard of the man who stole a bag of pearls and fled to the desert to escape arrest. There they were not worth as much to him as one drink of water; but if he could have escaped to some populous city without being caught, he might have become a rich man.

To be considered as wealth, a thing must be *material.* In the first place, what are material things? Anything

[1] Professor Fairchild is responsible for this illuminating definition.

that can be handled is material. A synonym for "material" is "tangible." In this connection an interesting question arises in the case of such a thing as a bond. A bond is wealth, and the piece of paper that represents the bond is material, useful, and owned; yet the paper itself is worth almost nothing when reckoned in money. However, the bond represents something material, and is therefore wealth. You buy stock in a steel corporation, let us say, and all you have to show for it is a piece of paper stating that you own a certain number of shares. But the money you paid for that stock helped to pay the cost of something. That "something"—it may be bricks in a building or a part of a blast furnace or of some great roller — is used to produce steel, and the steel it had a part in making is both tangible and valuable.



Wide World Photos

A Modern Silk Loom

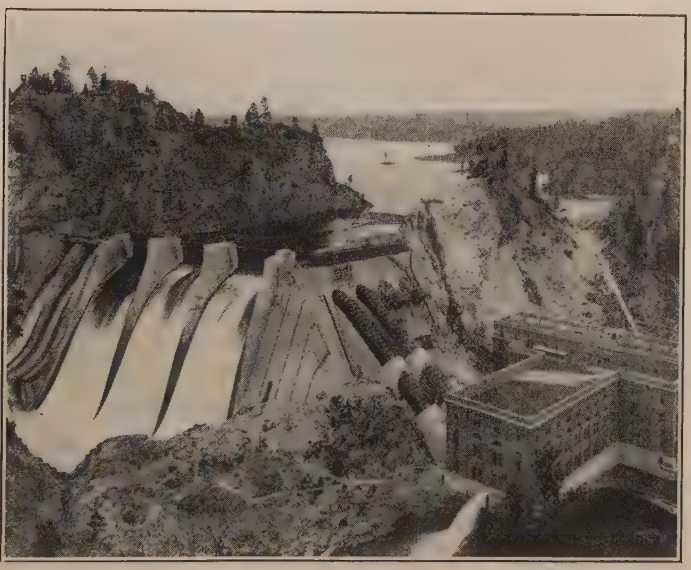
Does this meet all the requirements in our explanation of wealth?

Explain the words *concrete* and *abstract* when used in this connection.

The saying "Health is wealth" may be true as far as the individual is concerned, but in the economic sense health is not wealth. Neither is education, moral training, nor character. All four of these assets are very valuable but their value cannot be measured in money, and so may not be counted as economic wealth.

Are health and intelligence of any significance economically? Does it cost anything to have them? Are wealth and nonmaterial possessions alike in any respects?

To be wealth, a thing must be *owned*. Your books belong to you or your parents if you had to buy them; they belong to the school if they are loaned to you for use: therefore



White Coal

From this picture one can guess why hydro-electric power is sometimes referred to by this name. This reservoir is not far from Spokane, Washington. Whose wealth is this?

they are wealth. Natural resources — coal, oil, forests, and minerals — are wealth; they are owned by the government or by individuals. Animals, when they are owned by individuals, are considered wealth, but not if they run wild. It was the same in primitive days. As long as the animals were free they were not wealth, but as soon as they were domesticated and held by men they became wealth.

Are human beings ever classifiable as wealth? Are children a part of the wealth of their parents? Does the possession of wealth carry with it any disadvantages?

If wealth can be owned, its ownership can be transferred. Therein is one of the differences between wealth and those valuable nonmaterial possessions which we have mentioned. Your character and your intelligence may influence powerfully those who know you, but no matter how much they may benefit by your acquaintance, your character and intelligence are still yours, one hundred per cent. But if you give a friend $100, it is gone. It is no longer your wealth, but his.

Peter Minuit is said to have bought Manhattan Island for trinkets worth $24. Was the island a part of his wealth? Could it be transferred? Whose is it to-day?

If wealth must be useful, would earrings, paintings on a wall, trees on a lawn, an American flag, be properly classified as wealth?

Mention five objects for which we spend money that are not classified as wealth.

26. Property and Income. — *Property* is the right to receive the benefits that come from the possession of something. So might a lawyer define it. Commonly we use the word to refer to the thing that is possessed rather than the abstract right of possession; but even then we have in mind the right to hold or to use it to the exclusion of others. Though it be as small as a pin or as large as an ocean liner, if a thing is capable of being controlled, it may become private property and probably is. When a baseball player signs a contract to play ball for a season, his services are the property of the owner of his team.

There are two divisions of property — *private* and *public*. The first is anything that is owned by an individual or by individuals, the second includes that which is owned by the public and administered by some government agency. So when we visit a theater we are on private property, and when we walk in a park we are on public property.

In our study we shall not spend much time in considering the large amount of public property. This is not governed in all respects by the same principles and laws as private property. The White House is not the property of the President but of the people of the United States. The streets are not the property of the people whose houses stand near them. They belong to the whole community, and every one in it is interested in the way the money is spent in keeping the streets in order.

Keystone View Company

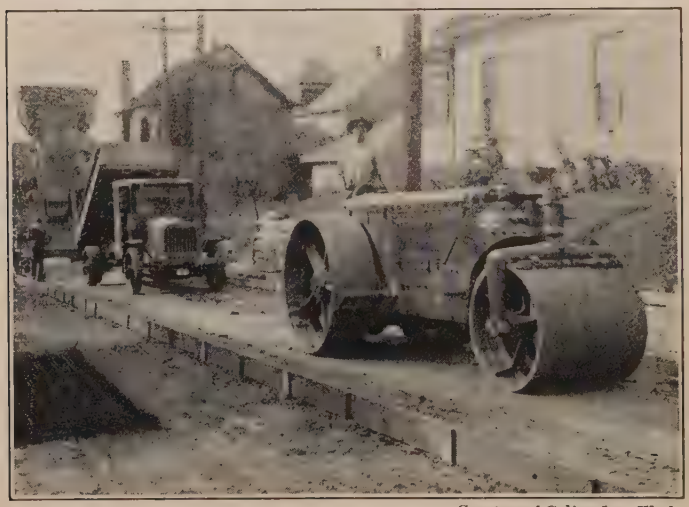
TWO FAMOUS BASEBALL PLAYERS

Are they anybody's property? Do you suppose the money they get is the only attraction that the game has for Babe Ruth and Ty Cobb? Why would people pay money to see these men?

We must notice another way of classifying property. *Real* property, or real estate, is property which is fixed in character and cannot be readily moved from place to place. *Personal* property is that which can be carried around with more or less ease to suit the pleasure of the owner. A man's house is real property, his automobile personal property. With the means by which these kinds of property can be obtained, a lawyer is more concerned than we are. It is enough for us to say that the three methods commonly recognized are: purchase, gift, and inheritance. No matter how property came into the present owner's possession, it is probable that either he or a previous owner acquired it by some form of work.

Why is it inaccurate to use "property" as a synonym for "real estate," as so many people do? Is there any advantage in a person's owning the house in which he lives; in the workman's owning the tools with which he works; in the pupil's owning the books with which he studies? Prove by examples that two or more individuals may have property rights in the same thing at the same time.

A term that we use rather frequently is *income*. It means that which one receives from his source of livelihood, or his



Courtesy of Galion Iron Works

A Stage in Modern Road Construction

How much that you see in this picture is public property and how much private property?

means of living. There are several kinds of income. The most common is money, which is the usual method of compensation for service rendered, or goods received. Another is commodity income. For instance, on farms sometimes the laborers are given in return for their work a portion of what they harvest. They may also be given their food and shelter.

A third kind of income arises from the use of property. The minister, for example, may live in a home supplied for

him by the church. Although he also receives money, he dwells on the property of the church.

Somewhat related to the use of property as a form of income is service. The pastor of a large church may have the right to use the services of the church secretary in handling his correspondence or preparing the notes or manuscript of his sermons. Such work may properly be considered a part of his own compensation.

Still another kind of income is that which comes as a gift or contribution from others. Some people inherit money; some people, we say, marry money. We are usually ready enough to receive money through inheritance or gift, in spite of the warning of John D. Rockefeller, "Money which comes without effort is seldom a benefit and often a curse."

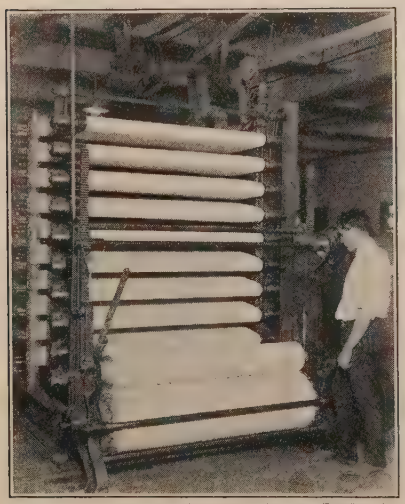
Rarely does one get income from anything without having to pay corresponding costs. If you build a house and allow some one else to live in it on payment of so much a month, you may receive, for example, a *gross* income of $900 a year. But out of that will be paid such expenses as taxes on the house, repairs, insurance, perhaps interest on borrowed money, and other things, so that what is left, or your *net* income, may be not more than $400 from that house.

Add other examples of the types of income previously mentioned.

We must not confuse income and expense with assets and liabilities. *Assets* are the wealth possessed by a person plus whatever is due him from any one else. *Liabilities* are the claims that others may have against a person — his financial obligations toward them. These terms always apply to a particular date and may change from one day to the next.

If you have studied bookkeeping, make up an imaginary statement, showing John Smith's financial standing on October 1, 1929. Someone in the class should present such a statement for the enlightenment of those who have never learned bookkeeping.

27. Kinds of Goods. — We have defined goods as whatever satisfies wants. They therefore include the material things which we speak of as *wealth*, and the *services* which are the personal efforts of individuals to satisfy our desires, such as the work of the doctor, the teacher, or the actor. Goods may be classified in several ways.



Courtesy of Goodyear Tire and Rubber Co.

A New Phase of Modern Industry

Here we have producer's goods. The work of this machine is to merge rubber and fabric. The material going through it will look much different before the public will get any use out of it.

There are *free goods* and *economic goods*, of which we have already heard (§ 10). There are *consumer's goods*, those which we have in our possession with intent to use for the immediate satisfaction of our personal wants, such as candy, shoes in our home or on our feet, a tennis racket, or an automobile. There are *producer's goods*, which are in the hands of the producer, to be used to make other goods; for instance, cotton in the textile mills before anything has been done on the cotton. There are *present goods* and *future goods*, depending upon whether they are available now or at a later time. There are *perishable goods* and *durable goods*, depending upon whether they are usable only once, like butter or gasoline, or may be used repeatedly, like a freight car or a fish pole.

Does the money value of an individual's property serve as a correct idea of his well-being in general or in comparison with somebody else? Mention five examples of public property in your com-

munity. Are Mt. Rainier, the capitol at Washington, your school building, property? If so, whose? Distinguish between ownership and possession of property. Identify the following with reference to the classes of goods and the class of property to which each belongs: apples on a fruit-dealer's stand; this book; strawberries on your dinner table; a telephone pole; the President's hat; the Washington Monument; a farm; a garage; the assistance given by a school counselor in getting a job for you.

Speaking of services — what would you suppose to be the meaning of the word *disservice?* Is there any disservice connected with wealth, property, income, or goods?

Wide World Photos

APPLES

These thousands of apples were grown near Winchester, Virginia. They are waiting to be packed for shipment to all parts of the country. What utility do they already possess and what utilities would have to be added before they would do you any good?

28. Utilities. — We have already spoken about utilities. *Utility* is the quality of a good that enables it to satisfy wants. It is the usefulness of a commodity. One good might be useful in one way and useless in another, while some other good might possess those qualities which the

first lacked. So we have the utility of commodities divided into five classes:

(1) *Natural* or *elementary* utility is the usefulness of a commodity in its natural or raw condition, such as the utility of coal or earth or an apple.

(2) *Form* utility is the usefulness added to a commodity by changing its form, such as making cotton into cloth or wood into furniture.

(3) *Place* utility is the usefulness added to a commodity by changing its place by transportation, as taking silver from the mines to the refineries, or peaches from Georgia to Chicago.

(4) *Time* utility is the usefulness added to a commodity by having it when it is needed, such as having ice in the summer time, and coal in cold weather.

(5) *Possession* utility is the usefulness added to a commodity by a change of ownership or of the right to use it, such as a watch which is more valuable to you than to the jeweler.

Must all goods possess all the utilities? Give five examples of specially notable utilities in particular commodities. Take the ten businesses or industries which first occur to you and observe what particular utility is given by them to the goods which they handle.

29. Value and Price. — *Value* and *price*, the two terms we are going to take up now, go hand in hand. Price affects value, and vice versa. *Value* is the worth of anything with reference to the gratification of wants. People do not all set the same value upon a commodity. You might own a painting which you value very highly, but some one else might consider it a mere daub.

There are two kinds of value — value in *use* and value in *exchange*. The first is its *direct* worth in satisfying wants. The second is what you could get for that article in exchange. You may have a vase that you do not like and want to sell. If it is an antique, some one else might value it very highly, and might be willing to pay a large sum for it. The vase

has high value in exchange with little value in use. This is also true of diamonds and money. A dollar bill might have some value in use as a bookmark, for instance, but in exchange for something to eat, read, or wear, it would be much more valuable. An article may have high value in use, but little value in exchange. A match is at times very useful, but ordinarily what could you get in exchange for it?

Does the scarcity of an article affect its value? Does the fact that some one has used it before affect its value? Why will some people pay hundreds of dollars for a little stone that they call a diamond when they would not pay a hundred cents for half a peck of oatmeal?

Keystone View Company

WHAT GIVES THIS ITS VALUE?

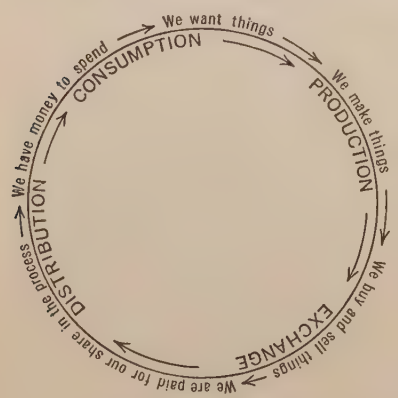
Does the fact that this highboy once belonged to a president of Harvard University enhance its value? Which is greater, its value in use or its value in exchange?

Price is the exchange value of a commodity reckoned in terms of money. If you have a ring which you wish to sell and ask $100 for it, the $100 would be the price or exchange value, in your estimation, expressed in terms of money. But if nobody else thinks enough of it to pay more than $75, that will become its actual price.

Add other examples of commodities whose use value and exchange value are notably different. If a hat cost $10, would that fact affect its value to you in comparison with one that cost $5?

30. The Phases of Economic Activity. — The economic activities of people are divided into four main phases — consumption, production, exchange, and distribution.

Consumption, in economics, is the use of goods to satisfy wants. It is the basis of production, for we produce commodities to replace those which we have consumed, or in order to consume more. This is not the sole purpose of production, but it is the primary cause. If the goods are used directly to satisfy personal wants, such as eating candy or wearing shoes, we have *final* consumption. If the goods are used in producing other goods, as sugar is used by the candy-maker or hides by the shoemaker, then we have *productive* consumption.



THE CYCLE OF ECONOMIC ACTIVITY

One feature of our economic interests inevitably leads to another. The four phases of economic activity are constantly moving in an unbroken circle.

Consumption has been defined as the *destruction* of utilities. Such a statement may be misleading, however, for when we occupy a chair, we are consuming that chair but we are not destroying it. By that particular act we may not even be harming it to any visible extent. It is true, of course, that using any article repeatedly may ultimately wear it out, even though we do not notice the destruction that takes place on any particular occasion. A business man always makes allowance for "depreciation" in reckoning his profits and losses. By this term he means the extent to which consumption has reduced the value of the goods or equipment which he uses repeatedly.

Be sure not to confuse consumption with waste. What is the difference between them? May consumption ever increase the value of a commodity? Why would some people pay considerable money for a chair used by Washington?

Production, in economics, is the giving of utilities to goods. To produce may mean either to make or to supply, according as the product consists of material things or of service. The farmer, the factory worker, and the bricklayer are all producers. So are the manager and the salesman, for while they do not put together actual material things, they do work which results in material production. When we recall our fairly extensive list of utilities and think of the countless processes that are put into operation to supply them, we begin to realize the enormous scope and range of production.

Can a person earn an honest living without engaging in some form of production? Are hotel-keepers, teachers, poets, bookkeepers, foremen, bankers, baseball players, housemaids, ministers, producers? Is all work production? Is production ever play? May destruction ever create utilities?

After things are produced they must be disposed of, and this is where we find exchange. *Exchange* is the process by which the possession or ownership of a good is transferred. This is usually done with money or something that represents money. Since, as we shall see later, we cannot often trade products for products, as was done in early history, there have to be other means of transferring goods. As the variety and quantity of production increases, the importance of exchange increases.

Distribution, in economics, is the process by which the returns from production are divided among those who have taken part in it. It does not mean shipping or transportation, but is the compensation for services rendered by landholder, laborer, capitalist, or manager. That compensation may be in the form either of goods or of their money value.

In all production there must be four factors — two primary and two secondary. The primary factors are land and labor, while the secondary factors are capital and management. The returns are not distributed all at once, but at opportune times. Sometimes it is hard to tell just how much each

factor really deserves, and on occasions when we can tell with some accuracy, it is not easy to get the distribution made in the right proportions.

31. Four Factors in Economic Activity. — The four factors in production, as we have just learned, are land, labor, capital, and management.

Courtesy of Industrial Brownhoist, Inc.

THE FACTORS IN PRODUCTION

These great machines do an enormous amount of work. Land and capital are very evident and management can be easily guessed. Do you see any labor?

Land, in the study of economics, includes, besides the soil itself, all natural resources and power. Examples of these are sites for buildings; trees, coal, and iron; wind and water; animals and fish. Land is a primary requisite for production.

Labor is the human effort in production — the people who do the work. Economically, all are laborers who work, with shovel or pen, with muscle or mind, with machines or

without. Most things do not make themselves — at least not in the form that we want. Production cannot go on without labor.

Is activity in producing anything properly called labor if it is not paid for? Is the effort of a policeman rightly called labor? of a broker? a waiter in a hotel? a chorus girl? a janitor? Discuss this statement: "If human activity is to be considered labor in the economic sense, it must involve a feeling of sacrifice or burdensomeness."

A third factor which modern industry cannot get along without is *capital*. *Capital* means any product of past industry which is used in producing more goods. It is a mistake commonly made to think of capital only in terms of money. Money may or may not be capital. If it is kept in a purse or some hiding place and not put into circulation, it is no more capital than a picture or a chair which is preserved as a souvenir or an heirloom. Capital may be in the form of a factory or a typewriter, a railroad train or a bottle of ink.

The material things which are used in production are known as *capital goods*. By this term we mean articles such as the plow used by the farmer, the truck used by the grocer in delivering goods (but not an automobile used for joy-riding), the pick used by the ditch digger, or the building and machinery by which wool is made into cloth. Be careful to distinguish capital from wealth. No matter how many suits of clothes a millionaire may have in his wardrobe, they are not part of his capital.

Give ten examples of things which clearly are capital. Give ten examples of things which are regularly used but which are not capital.

Management, in the study of economics, is the factor that plans an enterprise and handles or administers the other three factors, land, labor, and capital. The manager's business is to secure the land needed for the enterprise, to obtain enough labor and capital, and to determine when

and how each shall be used. The manager compensates each factor for its part in production. Industry cannot exist without management, even though at times the manager may be also the only laborer and the only capitalist in the business.

No occupation, trade or profession, in these days can avoid using all these factors in some form. This statement is as true of the dentist as of the farmer. Take away the land on which the dentist's office is placed and he is nearly as helpless as the farmer would be, deprived of his land. Take away the labor which the owner of an oil well must make use of before the oil can render any service, and the oil is as worthless as if it remained in the bowels of the earth. Take away the farmer's tools, which are an important part of his capital, and it will be almost impossible for him to raise or harvest his crops.

Show how all four factors in production enter into the operation of a school, a farm, a dentist's office, a radio station. Which is more important to a school system, the janitor or the superintendent?

32. The Complexity of It All. — No matter how clean-cut each of these definitions of economic terms may seem, in practice such clear lines are often lacking. When does production take place in response to an actual demand for goods, for instance, and when does it take place in the hope that there will be a demand? Each of the four factors in production expects a return for the part it plays in the work. But who can tell just how much of a product is due to the use of land, how much is the result of labor, how much is caused by capital, and how much is due to management?

In one and the same industry one person may handle a shovel and wheelbarrow, another may pound a typewriter, another may spend most of his time looking on while some machine is operating, and still another may do nothing except order people around. In this very same industry, sales agencies may be established in a dozen different cities,

and each agency may have a dozen or more workers under its supervision. To manage the finances of a great industry may be more of a task than governing a good-sized town.

Things were not always this way. Almost every great enterprise had a simple beginning, but each has expanded, absorbed or bought out rivals, and organized itself into departments and divisions. Each division has its own

Courtesy of United Shoe Machinery Co.

An Old-Time Cobbler's Shop

The pictures on the wall suggest that it goes back to Civil War days.

part of the work to do, and in each, dozens of toilers labor in blissful ignorance of what hundreds of others are doing who get their pay out of the same treasury.

33. Fundamental Economic Principles. — Underlying all these seeming complexities are a few simple and evident institutions. Industry could hardly take form except as individuals hope, through carrying it on, to make for themselves a better living and to obtain *private property* of some

sort which they can use for their own comfort, save up for a "rainy day," or pass on to relatives, friends, or the community in general. Whatever one's own conception of an ideal society may be, it is safe to say that without this hope of acquiring things for their own personal benefit, men would not have toiled and planned as they have in order to make industry and society what they are to-day.

Necessarily associated with the right to possess private property is the right to sell or trade it and to make agreements for the use of it or for the employment of the services one can render. This is known as the right of *contract.*

Along with these rights affecting private property and services, we find in every advanced community a considerable measure of *individual freedom.* It is only in emergencies that the government says to a citizen, "You must do this thing rather than that. You must be a soldier. You must make cloth for soldiers' uniforms. You must not waste the grain which feeds both those who fight and those who stay at home." If industry is to advance, workers must have the privilege of going into a particular line or staying out of it — speaking generally, of course, for there are times when many a worker will seize any job he can get. If he can do one sort of thing better than some other sort, he ought to be free to undertake that particular line of activity. Nevertheless, he must remember that his own freedom may have to be limited at many points by somebody else's similar desire for freedom.

We must try to secure for every one an *opportunity* to do his best. Not that everybody will succeed in the same degree as everybody else — we know that won't happen — but they have a right to a fair start. Herbert Hoover, in protesting against a statement that he had earned the presidency, declared: "My country gave me, as it gives every boy and girl, a chance. It gave me schooling, independence of action, opportunity for service and honor. In no other land could a boy from a country village, without inheritance

or influential friends, look forward with unbounded hope." That this chance may be kept open for all is a prime necessity. So we must have laws regulating conduct in business as well as in private life, not to hinder people from advancement, but to give everybody a square deal.

This thought of a square deal suggests another element which we have commonly looked upon as essential to economic progress — that is the possibility of *competition*. A law that biologists think they have seen in the workings of nature they explain as "the survival of the fittest." It has its counterpart in the history of industry. "Fittest" means "best adapted to one's surroundings" — not necessarily largest or prettiest or even most intelligent. The old law of the jungle, as it is sometimes called, was "Victory goes to the strongest." Too often in our struggle for industrial success, this idea of brute strength has dominated the conduct of men. Now we realize that competition, to serve the interests of the people, must be free and open and even. If progress is to be made, it will come under circumstances that compel even the strong to do a good piece of work in order that they may retain their supremacy and not have to yield it to those who do the work better.

© *Harris & Ewing*

HERBERT HOOVER

In what way does his career give proof of the value of opportunity?

What evidences of competition do you see in your school life and in businesses with which you are acquainted? List the advantages and disadvantages of competition in business or school life.

34. Incentives to Activity. — In the early days of man's slow progress upward, his whole time was so fully occupied in keeping himself alive that there was little chance for him to think of what to-day we call the higher life. Even to-day, we must admit, some sort of self-interest plays a big part in the attitude of the worker in relation to the thing he does in industry. Let us say right here that self-interest does

A Western Town in Pioneer Days

Helena, Montana, looked this way in 1870. What was people's object in coming here?

not need to mean a disregard of the interests of others. Self-interest may lead to an exceedingly high service to others.

In deciding what particular kind of work they will do, or sometimes whether they will work at all, different men and women are likely to be influenced by different motives.

(1) Naturally, most people must work in order to obtain the *necessities*, such as food, clothing, and shelter, which one must have to keep alive.

(2) Most people, too, are not satisfied with mere necessities. They are willing to work more in order to have *comforts and conveniences* if they cannot get them without such additional effort.

(3) There are people so interested in some line of activity that they will work at that activity just for the *pleasure* they get out of it.

(4) Other people are glad to spend their time and labor in doing *service to others*. Their greatest joy is in the thought that they have made it possible for men to live more easily or pleasantly. If we may paraphrase Walter Scott, we may ask, "Breathes there a man with soul so dead, who never to himself has said, 'I have made it possible for this thing to be done a little better than ever before,' or, 'I have helped to make some one else live more comfortably or more happily'?"

(5) Some people enjoy certain activities because of the *prominence* or *power* which is connected with them.

Sometimes, no doubt, a person might not be able to state clearly all his own reasons for going into a particular occupation. Very often, too, several motives will have weight with the same person.

Make a list of persons you know who seem to illustrate each of the above motives for work.

Unfortunately, in economics we must ignore those elements which we cannot measure in dollars and cents. It may seem that in our discussion we shall overemphasize the money motive or the business impulse that is back of the various forms of human activity; but as long as we limit ourselves to this field, we have something fairly definite by which to measure. Besides, even those who wish to spend their lives in service to others must have the wherewithal to keep themselves alive.

It is therefore inevitable that this money motive will stand out prominently in any consideration of economic questions.

People will carry on a business by one method in preference to other methods because they think the returns will be greater in that way. If a certain line of industrial activity proves to be unprofitable after a fair trial, they will either abandon it or change very much their method of carrying it on.

People sometimes inquire cynically, when a minister accepts a call " to a larger field of service," whether the bigger salary offered was not the loudest thing he heard. But can you blame him much? If he has to spend much of his time earning extra money on the side and worrying whether his family can be properly clothed, if he cannot afford books and travel to broaden his own mind, how can he preach sermons that will uplift the souls and enlarge the intelligence of his hearers?

Does a person's feeling of security or insecurity in the holding of his job affect his attitude toward his work and the quality of his product?

If something has to be done which cannot properly be handled on a basis of profit, such as dealing with criminals or maintaining a fire department, private individuals will not do it at all, but the whole community will have to be responsible for the necessary outlay.

Sometimes this desire for wealth may become an obsession. Fanatics of that kind may have to be restrained, as well as those who are unbalanced in other respects. It is fortunate that the laws of economics as well as the principles of ethics provide penalties for those who abuse their talents or their desire to " make money." The economist wants men to be wealthy not for the sake of piling up riches, but because wealth is a means by which happiness and human welfare in general may be advanced.

The underlying purpose of the economic system is the promotion of the welfare of the group. No individual has rights which can be tolerated indefinitely if their exercise is harmful to the people as a whole. A force mightier than

any man or nation seems always in the long run to overrule the selfishness of men. Slavery lasted for centuries, but to-day it has virtually disappeared from the world. The liquor business has also had a history as old as men's appetites, but to-day intelligent people disagree only in regard to the most satisfactory means to restrain the evils of drunkenness. We wish to promote "the greatest good for the greatest number" and to enable the largest possible number of people to satisfy their reasonable wants.

Can a country be too prosperous? Mention the chief dangers that attend prosperity and the lack of it.

35. Conditions Necessary to Economic Progress. — Since every group is made up of individuals, the welfare of the group is simply the well-being of every individual in it. A country may seem prosperous when a big volume of business is being done, but that prosperity should be distributed so as to give every honest person a reasonable share of it if the people as a whole are to be happy and progressive.

A well-known firm making condensed milk advertises that it comes from contented cows. If contented cows give milk more successfully, surely contented workers will accomplish very much more than those that are not. Let us consider briefly some of the conditions which underlie all true economic progress.

(1) *Physical welfare.* — Perhaps your own experience has shown you that when a person is feeling first-class and has nothing to worry him, he can work at least twice as successfully as when he has a bad cold or is "carrying a grouch." So it is particularly important that sickness, even if it is not severe enough to keep a worker at home, should be prevented as much as possible. Muscular strength is not essential for all kinds of work, but endurance — the ability to keep steadily at a thing — is desirable for every worker. The worker who has been favored with a sound physique is indeed fortunate. But the conditions of work

for every one should be such at least as not to lower the vitality that one does possess.

(2) *Efficiency.* — Moreover, there must be efficiency of management and organization if each worker is to be given the opportunity to do the thing that he can do best, and to produce the most with the least effort. No matter how

Courtesy of Ford Motor Company

A Contented Workman

This man is balancing a fly-wheel. Do you suppose he does his work any better because he is happy at it? What makes him contented?

faithfully one worker may attend to his duties, an inefficient worker may cause the good workman a great deal of annoyance and hinder him from accomplishing all of which he is capable. One incompetent or misplaced worker may undo the achievements of many faithful and capable people.

We cannot expect efficiency if workers are not properly trained. Few are born with such a knack for doing things that they can handle a job of any importance without prepa-

ration or experience. The schools can give the general background that every worker needs and special training for some. Industry itself must supplement the training of the schools and add the specific practice or information which will qualify workers to do their respective tasks most successfully.

(3) *Coöperation.* — The individual worker, however, must realize that his own place in the scheme of things is not

Courtesy of Davey Tree Expert Company

TRAINING SPECIALISTS FOR THEIR WORK

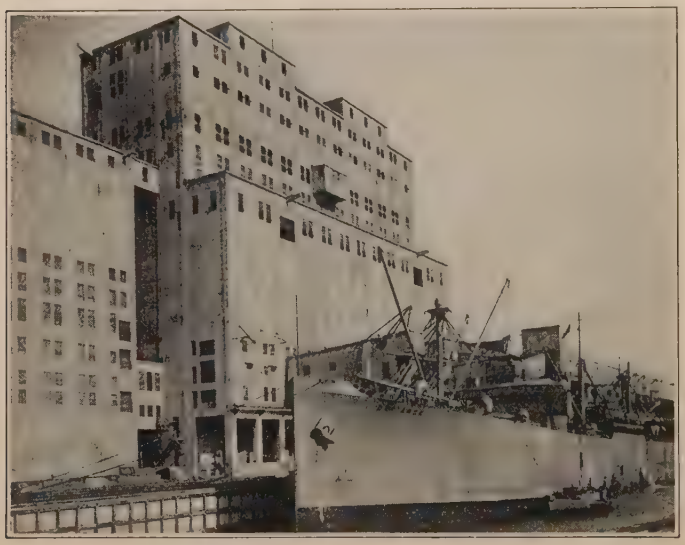
Men in the service of this company have to be specially trained by it so that they may know as much as possible about trees and what troubles them. Some of this they can learn only through the microscope.

necessarily more important than that of any one else. He must at times be willing to sacrifice his own preferences to the welfare of the community or the group of workers to which he belongs. Coöperation is essential to industrial achievement and national prosperity.

As with persons individually, so it is with cities. Pittsburgh is a great steel city, but is all the steel which Pittsburgh produces consumed there? Detroit makes thousands of

automobiles, but do all users of these machines live in Detroit? Chicago is a great meat-packing center, but does she sell all this meat to her own people or raise within her borders all the animals that she kills? The very statement of these questions shows the absurdity of the idea that one city can live by itself. It buys from other cities and sells all over the world.

Could the city exist without the country or the country without the city? Which is more dependent upon the other?



MODERN TRANSPORTATION FACILITIES

This great grain elevator at Baltimore belongs to the Pennsylvania Railroad. Grain can be readily loaded on the boat directly from a freight car or can be stored in the elevator until it is desired to ship it to other places. Baltimore could not grow the grain that this elevator might hold.

(4) *Security.* — To protect each worker and assure him just treatment at the hands of his associates, his superiors, and others who might be tempted to ignore his rights, there must be a government strong enough and able enough to command the respect of the people as a whole. Laws must

not give special advantages to one group of workers or one industry as compared with another, but must seek to provide equal opportunity for all. Government must not be so conducted as to burden the workers with unreasonable taxes, or to waste their hard-earned savings through graft or extravagance.

If an unnecessary boulevard is constructed or an extravagantly outfitted public building put up, are you in any way affected? Why are such things permitted to happen?

(5) *High standards of living and thinking.* — Finally, all should understand the principles and laws which direct men in earning and enjoying a living. It is not enough that a few should know what ought to be done. That community will be most prosperous and happy whose workers all have worthy ideals of living and conduct. They should have leisure to think and to study. They should have opportunities for recreation and rest.

Is a college professor more valuable to society than a ditch-digger? than a plumber? Is an educated bricklayer more valuable than one who never went to high school?

Economic laws, it is true, are not exactly like political laws. If a state law says that voters must register on certain days in order to vote at an election, they *will not be allowed* to register on other days. If an economic law says that under given conditions prices tend to go up, they *probably will* do so. Even though an economic law sets forth probabilities rather than certainties, one can usually depend upon it to operate under any except the most extraordinary circumstances. It is a principle noticed by keen observers or worked out on the basis of experience. To help boys and girls to have some understanding of economic laws so that they may save themselves from the mistakes often made by their elders, is one of our ambitions in proposing that they undertake such a study as this book represents.

Give examples of laws that, as far as human knowledge goes, are unvarying; of laws that do or do not operate, depending upon given conditions; of laws that do not attempt to express anything more than probabilities or tendencies. Is there anything undesirable in a situation where workers are too ignorant to know that they are not well off? Show by definition and example the use of the word *law* in science, government, and economics.

36. Learning the Facts. — Where are we to get all the information that will make us intelligent and enable us to set up these eminently desirable ideals? We who are studying economics have as fine a chance as any one can possibly have. The study of the text together with our class discussions will give us a most valuable foundation for our economic thinking and practice.

But we should not stop with textbooks. There are all sorts of valuable publications which contain useful information. There are such magazines as *Nation's Business*, published by the Chamber of Commerce of the United States, and those of special interest to business men, such as *The Magazine of Business*, *System*, *The Chronicle*, *Commerce and Finance*, and *The Annalist*. In addition, general weekly and monthly publications contain article after article of valuable material.

To keep in touch with the viewpoint of "working men" as well as of "business men," we should be familiar with such publications as *American Federationist*, *United Mine Workers Journal*, *Amalgamated Journal*, *Labor*, and the publications in the interest of particular trades.

There are also such journals as *American Economic Review*, *Journal of Political Economy*, and *Quarterly Journal of Economics*, which are written in the first place from the viewpoint of the college professor, but at the same time are not beyond the high school student or the general reader who is willing to exercise his "gray matter."

Some business ventures have been established for the sole purpose of supplying information to business men and

others about investment and business conditions. These, which are commonly available only on the payment of rather high fees, are represented by Roger W. Babson's organization, of Wellesley Hills, Massachusetts, and the Brookmire Economic Service, of New York.

Harvard University and Brown University are examples of institutions of higher learning whose departments of economics issue bulletins of information for the benefit of the communities which they serve. Such dry-looking pamphlets, reports, and bulletins as are issued by the National Department of Commerce and the Department of Labor, the Interstate Commerce Commission, and other agencies of the federal government, and by the numerous departments of state governments that deal with the interests of labor, banking, insurance, and the like, contain a wealth of fact and figure for those who have the patience to delve for it. Some of the famous banks of our larger cities get out pamphlets or bulletins every once in a while which are full of "good stuff."

Besides, there is always the chance to study economics by seeing it worked out in practice. Keen business men are constantly on the alert to learn of better ways of doing things. They try to keep in touch with all the improvements which their competitors may introduce. The largest business organizations find it profitable to maintain laboratories in which they spend thousands of dollars trying to find out more efficient ways of doing their work.

One who is just learning to know and to like economics can advantageously visit industrial establishments and see how things are done. Thus you can get first-hand information to supplement the theories and principles you may learn in the classroom and in books and magazines.

Does economics seem to you an easy subject? Are the opportunities for mastering it more or less satisfactory than those of other high school subjects? There was a time when economics classes were composed almost exclusively of boys. Should that condition continue?

37. Showing Economic Facts. — There are several ways by which statistics and relationships can be expressed graphically. For most people a diagram or chart presents a situation more clearly than mere columns of data and figures. We may, for instance, use *lines* of different lengths to show the relative size, area, weight, etc., of different items. We may use *bars* or *blocks*. The graphic method is particularly good when it is desired to show the proportionate part that belongs to any one item as compared with the total statistics for a group of items. We use the *bar* system in the diagram in § 116. The statistics indicated there could also have been shown by *lines*, though if we were to use *lines* to show the facts represented by the diagram, it would be desirable to have one set of lines one color and another set of a different color.

Another method of indicating proportionate parts is by the use of a circle, cutting it up into sectors of different sizes. Unless one is familiar with the laws of geometry, this is not easy to do accurately. All sorts of other expedients are sometimes useful, such as figures of men of different sizes to indicate the population of states, the number of farmers as compared with the number of mechanics, and the like.

Many facts in economics and statistics can best be shown by a graph. Probably every one who uses this book is familiar with graph paper, printed with intersecting lines that cover an entire sheet with small squares. Then by placing dots at certain points to show prices, population, wages, or other things, one may connect them by a line which in its ups and downs indicates certain trends and movements. Such a line is often called a curve — whether it really is a good curve or not. For examples of this see § 104 and § 108.

Taking the table which shows the number of men, women, and children engaged in the great groups of occupations in the United States(§ 42) indicate the relative numbers in the different groups by means of *lines*, *bars*, and *sectors* of a circle. Which method in this instance seems to present the situation most clearly? Do you think of some other striking way of representing these facts? Remember that the table does not show the total number of men and

women in any group. Perhaps you will want to make this addition before drawing any diagram or figures.

The study of economics is, in a sense, the study of wealth and of the right to use it which we call property. The various classes of goods derive their ability to satisfy wants from one or more of the utilities — natural, form, place, time, and possession. These utilities give goods their *value*. When we explain value in terms of money, we speak of it as *price*.

Economic activities have four phases — *consumption*, *production*, *exchange*, and *distribution*. Production is the phase which we often discuss most extensively, but the probability of consumption is the reason why production takes place. In the work of production *land*, *labor*, *capital*, and *management* are concerned. The simple statement of these terms by no means indicates all the complicated relationships that result from them.

The motives that induce people to take part in economic activity are varied, but certain human traits have always had much significance — the desire for private property, the urge for individual freedom, and the struggle of one worker or group of workers to gain equality with or supremacy over another. The money motive may sometimes seem over-emphasized, but we cannot get away from its importance. The welfare of the group, however, receives first consideration in our thought rather than the gains of the individual.

The study of man's economic progress convinces us that the human race will make industrial progress more quickly if individual workers enjoy certain conditions — physical welfare, efficiency, coöperation, security, and high standards of living and thinking. Workers who are acquainted with the fundamental facts and laws of economics can hardly fail to do better by themselves and by society than those who are not so informed.

Special Studies

The Chief Facts about Wealth and Income in the United States To-day

The Importance of Each Phase of Economic Activity to John Smith, Business Man

The Use of Each Factor in Economic Activity by John Smith, Business Man

A Description of a Community With Ideal Conditions for Economic Progress

Is There a Limit to Our Economic Progress?

Goods and Utilities Needed by a Modern School

Reference Readings

Adams, *Description of Industry*, Chapters 1, 4
Carver, *The Economy of Human Energy*, Chapters 6, 7, 8
Clay, *Economics for the General Reader*, Chapter 25
Ely, *Outlines of Economics* (Third Revised Edition), Chapter 7
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Seligman, *Principles of Economics*, Chapters 1, 9, 10, 11, 12 (pages 179–188)
Taussig, *Principles of Economics*, Chapters 1, 2, 7
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PART III: SUPPLYING GOODS

(Production)

CHAPTER V

THE SCOPE AND FACTORS OF PRODUCTION

Some play violins, some sing, some paint pictures and make statues, while others till the soil and make the flowers bloom. Each sings a song, and helps to make music for the world. If you put your best into it, the song you sing with knives and wood will be just as noble as the one sung with voice or violins.

— AMATI

Now we turn to the second great phase of economic activity — production. We usually spend more time discussing it than we do on all the others put together, perhaps because it is more definite and easy to observe than consumption or distribution, and because no exchange or distribution can take place until goods are produced. Let us consider first the reasons why production occurs and then note the general aspects of the contribution that each factor makes to production.

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38. Why Production Takes Place. — Production occurs chiefly because consumers demand something or because some one thinks they can be induced to do so. Very few people produce anything of an economic nature just for the fun of it. Without production, all the rest of our economic interests would be impossible.

Much production is undertaken in order to replace those things that have been consumed to the extent of being destroyed. Bread, coal, or paint, for instance, can be used but once. Other wants are satisfied by repeated use of the same article or material, such as a book, an automobile, or a church.

Some demands for production come from wants felt most keenly by individuals, but others are the result of demands by a group for something for collective use. A girl wants a watch, for example, so that she may know the time of day. Other people may want watches but not hers — they want their own. Thus, although she may help others by telling them the time at various intervals, the value is personal and individual. She did not desire the watch in order to accommodate other people. We want good food for our own personal welfare, but we want a new town hall for the benefit of the whole community. When a community wants a new school building or a new post office, the want is a group want. Individuals may want the building and may use it individually after they get it; but the want is felt by many people in common, and is gratified only by group action.

Wide World Photos

A Skilled Worker of Another Land

This girl in far-away Japan has as much need for her watch as any of us have for one. Did the makers of this watch have her in mind when they made it?

No matter what is produced, there are four factors which enter into production. We have explained in a previous chapter the meaning of land, labor, capital, and management. Now let us show more fully the part played by each factor.

39. The Importance of Land in Production. — Perhaps it will be in order to recall a point or two which has already

been mentioned. You remember that we defined *land*, as far as economics goes, as being practically a synonym for *natural resources*, and as including all gifts of nature which are used in producing goods. Soil on which crops are grown, water power to turn the wheels of a mill, coal to keep the furnaces going, the trees of the forest which are turned into lumber — all these are forms of land.

We have observed previously that every occupation uses land to some extent. This does not mean that land occupies as large a place in the needs of one worker as of another. Few people walk as much as a policeman, and few use land so directly as the farmer or the miner. To some workers, as to a telegraph operator or a storekeeper or clerk, land is useful only as affording a place where the work can be done — but what would they do without it! We often refer to this use of land as *standing room*.

The *raw materials* needed in every form of production are all forms of land. Coal and oil in the ground, and uncut grain, for example, are all called land. When coal has been mined, however, it ceases to be land. If it is to be used to make some other product, the mined coal becomes capital. The same is true of wheat. Wheat is land until it is harvested and ready to be used for flour; then it is capital — the product of past industry — until it is made into flour. The flour is also a consumer's good unless it is going to be made into bread by a baker; then it is capital — the product of past industry again — until it becomes bread ready to sell. Then it is no longer capital but merely a product, as far as the baker is concerned.

Other forms of land in the economic sense include animals, water power, wind power, electric power, gas power, and whatever other *powers and forces* may be developed from them. These, too, are tremendously important. The one great distinction between land and other factors used in production is that human effort cannot create it. Oh yes, we speak of "made land," meaning land that has been made

useful by filling in a swamp or a small bay, for instance. What has been done in that case is not to *make* land, but to put land into a new place or form. Of course we can do that. We can put *utilities* into a certain piece of land which it did not have before. We can cause trees to grow where they might not have grown without our help. We can so handle water and steam as to produce electricity. However, no

Market Gardening on a Large Scale

This Florida farm raises much celery for northern markets. How many forms of land appear in this picture?

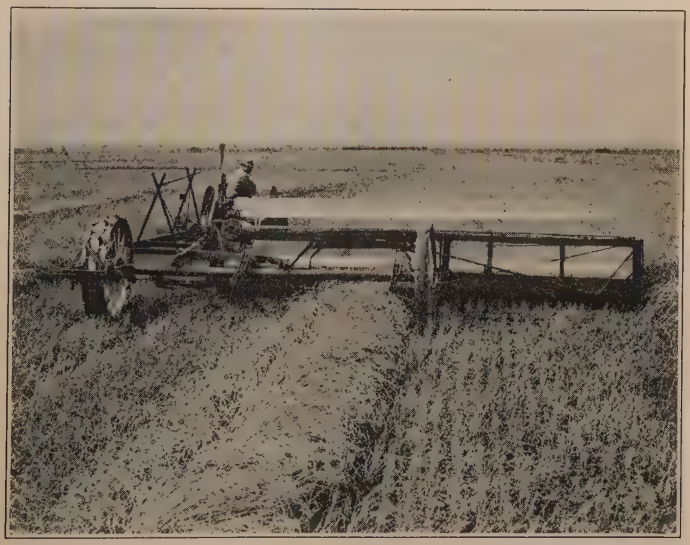
man has yet succeeded in actually creating anything. Land is always a gift of nature, however much we alter its form or appearance.

To what extent do you yourself make use of land?

40. Methods of Cultivating Land. — Since land cultivation means in the long run so much to everybody, we may properly consider the methods employed in working the ground. These may be either extensive or intensive. By

extensive cultivation we mean the working of soil by machinery on a very large scale, as on farms that may include several thousand acres. By *intensive* cultivation we mean that kind of agriculture which spends much energy and capital upon a comparatively small tract.

Extensive farming is possible only where we have vast areas of soil from which some standard crop such as corn



Courtesy of International Harvester Company

A Phase of Extensive Farming

Without the use of machinery such as is shown here farms of this type could not be operated.

or wheat can be grown with only a moderate amount of hand labor. It does demand, however, an unusually large investment in capital. Enormous tractor machines are provided for plowing the soil and for harvesting the crop, and the vast farms of our western prairies and plains states and of western Canada become really great business enterprises.

Intensive farming is more common in those sections which have been more generally built up and occupied and where

the area is crowded. Here, by the use of proper facilities, by changing the location of certain crops from year to year, and by painstaking labor, large crops can be raised from a small space. To do this intelligently requires an understanding of scientific facts that relate to farming. Our agricultural colleges as well as the services of national and

Underwood & Underwood

INTENSIVE CULTIVATION

These mountainsides in a province in the Philippine Islands are terraced and irrigated by mountain springs carried through bamboo pipes. They grow much rice.

state Departments of Agriculture are helping farmers each year to make their work more profitable. Many small farms are market gardens which furnish vegetables and fruit for city consumers and have become exceedingly important.

Chinese and Japanese, as well as Germans and Italians, carry this intensive cultivation much further than we do. Hillsides which Americans would never think of cultivating

are carefully terraced and made productive. On Chinese rivers one even sees rafts covered with dirt and transformed into little gardens. The patience and never-ending care displayed by these people are marvelous.

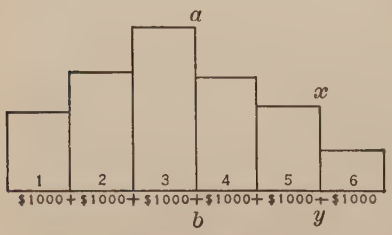
41. The Law of Diminishing Returns. — Whatever is the method of farming employed, the *law of diminishing returns* comes into play. This law declares that in working a farm, or operating a mine, or in carrying on very many other economic activities, a point will be reached beyond which added labor and capital will bring in smaller returns in proportion to the amount expended than before that point is reached.

For example, merely scratching the surface of the ground and throwing a few seeds would bring some returns. The use of a comparatively small amount of labor and capital in addition to this crude sowing would bring in additional rewards far beyond the cost of the additional labor and capital. But when the point of "diminishing returns" is reached, more labor and investment of capital will not add as much to the crop produced as the same amount of labor and capital did before. A point may even be reached where additional labor and capital may cease to bring in enough to equal their own cost. That point is known as the *margin of cultivation*, because no sane man will knowingly cultivate the land beyond that point. This of course does not refer to the location of the ground, but means the limit to which profitable crop-raising can be carried on there. This principle is equally applicable to mining.

Enterprises which have much less to do with land are usually governed by the same law. A telephone exchange, for example, may easily reach a point of diminishing returns if too many lines are brought into one station. Enlarging an office building by adding more rooms or floors may increase the relative profits, but in most localities a point will be reached beyond which such enlargement would cease to

be as profitable as before, or even to be profitable at all. A store-keeper or a factory-owner might improve the service rendered by his establishment and thereby increase his own profits, by adding to the number of workers whom he employed. But he would have to stop somewhere or else he would have so many employees that they would get in one another's way and actually reduce their own efficiency and their employer's profits.

Perhaps we can illustrate this law by a diagram. Suppose the square numbered 1 represents the returns derived from the use of $1000 in labor and capital on a certain piece of land.[1] Perhaps the use of the second thousand would bring returns represented by block 2, which obviously makes the total returns more than double the returns from section 1. A third $1000 might bring additional returns indicated by block 3, a fourth by block 4, a fifth by block 5, and a sixth by block 6. The returns indicated by block 3 are evidently still greater than those of block 2, but the added returns represented by block 4 are not as large as block 3. The line *ab* evidently indicates where the law of diminishing returns has begun to work, for added investments of labor and capital do not bring in as great additional returns as before. We must not conclude that the farmer, miner, or factory-owner would never go beyond that point. He would not know until he actually tried, whether the point of diminishing returns had been reached or not. Even when he discovered that it had, the added returns of block 4 or perhaps block 5 might be worth getting; but he surely would not

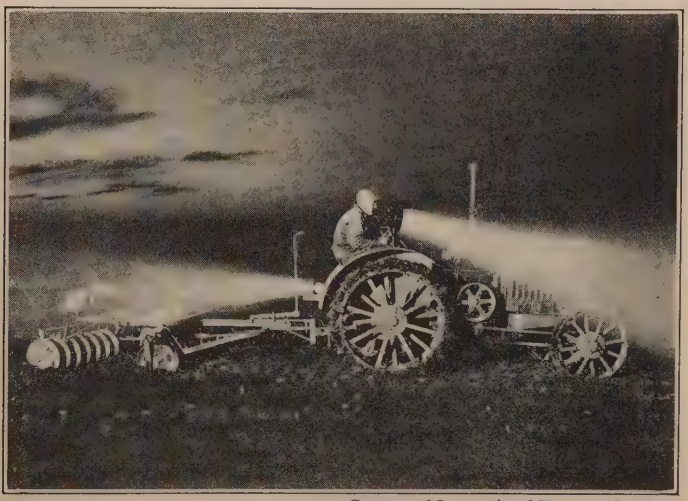


Diminishing Returns

[1] Some economists refer to a given amount of labor and capital applied in industry or agriculture as a "dose."

go beyond xy and invest a sixth $1000. The line xy represents the margin of cultivation or development here.

We have discussed this from the standpoint of *intensive* cultivation or development. The principle is equally true of extensive development, and the diagram can be used just as well to show what would happen through adding to the size of a farm or factory as well as by improving the original



Courtesy of International Harvester Company

Up-to-Date Use of Machinery on a Farm

A farm is one of the last places where one would expect to work at night, but it evidently is done. Do you see any relation between such operations and the law of diminishing returns?

plot or building. If we had a fixed amount of capital or a fixed number of laborers, and varied the other factors, the principle would still hold good. The general law may be stated as follows: If one or more of the factors of production remains unchanged while the other factors are increased, a point will some time be reached where any further addition will bring in steadily diminishing returns in proportion to the amount used.

If it were not for the law of diminishing returns, would it be possible to feed the American people from your back yard? Why are most of the skyscrapers in large cities? Is the best land always used first? In many parts of New England farms may be found once occupied but now in decay. Were their former tenants wise in leaving them? Why do we often find a French-Canadian occupying one of these farms and making it pay? Does the law of diminishing returns apply to mental activity, such as study? A farmer is considering the plowing and planting of five acres of land which has been used entirely for producing hay. Mention all the elements which will enter into his thought before making his decision.

42. How Labor Provides Utilities. — Labor is the human element in enterprise. No matter what is being undertaken, there must be labor. No matter how far-reaching or rich is your land, there must be some one to cultivate it. No matter how ingeniously devised a piece of machinery you have, there must be some one to start or to operate it. Labor provides new utilities — "only this and nothing more," but after all, that is all there is to production.

The Bureau of the Census groups all persons engaged in "gainful occupations" into nine great classes. The statistics for these in the census of 1920 are as follows:

Occupations	Percentage of all Workers	Men*	Women*	Children* (from 10 to 16 Years Old)
1. Agriculture, forestry, and animal husbandry	26.3	9,869,030	1,084,128	459,238
2. Extraction of minerals	2.6	1,087,359	2,864	7,045
3. Manufacturing and mechanical industries	30.8	10,888,183	1,930,341	104,335
4. Transportation	7.4	2,850,528	213,054	15,017
5. Trade	10.2	3,575,187	667,792	49,234
6. Public Service (not elsewhere classified)	1.8	748,666	21,794	1,085
7. Professional service	5.2	1,127,391	1,016,498	1,979
8. Domestic and personal service	8.2	1,217,968	2,186,924	16,082
9. Clerical occupations	7.5	1,700,425	1,426,116	59,633
Total	100.0	33,064,737	8,549,511	713,648

*"Children" are included under "Men" and "Women."

Why do some occupations employ so many people while others have comparatively few? In which of the occupations could children be employed to advantage? Why or why not?

You remember the five kinds of utilities — natural, form, time, place, and possession. Each group of occupations supplies one or more of these. To assist in providing natural

Courtesy of Roanoke Chamber of Commerce

A Business Street in a Growing City

How many classes of workers are suggested by anything you see in this picture?

utility or making such utility available is the chief concern of two groups, "Agriculture, forestry, and animal husbandry" and "Extraction of minerals." Under these two large heads are many subdivisions, including farmers, dairymen, cattle raisers, miners, foresters, fishermen, and lumbermen. Each produces something. Their work is fundamental, for until it has been done, the other occupations are idle.

Next in our list of utilities is form utility. "Manufacturing and mechanical industries" include not only factory

owners but most of the workers, skilled or unskilled, who would be classified as providers of form utility. Even so valuable a metal as iron can be taken out of the ore and still be about as useless for most purposes as if it were still in the ore pit, until its form is further changed. Some of the providers of form utility are machinists, iron and steel workers, furniture makers, and millers.

Time and place utility we shall take up together, because "Transportation" is concerned with providing both of these utilities. This division is the carrying agent which sees that goods are at the proper place at the time the goods are needed. Water, land, and air transportation all come in this group. Some of the providers or producers of time and place utility are pilots, truck drivers, motormen, seamen, expressmen, and railroad engineers and conductors.

Possession utility is provided by any of the storekeepers that you know. "Trade," which means marketing or commerce, has as its chief function the supplying of possession utility. Real estate agents and bankers also supply it, by making possession or ownership possible.

Providers of service supply many kinds of service — public, professional, domestic, and personal. *Public* service is the field of such men as firemen, sheriffs, inspectors, policemen, life savers, and all other public officials. *Professional* service is rendered by actors, architects, authors, lawyers, teachers, technical engineers, and ministers. Some examples of *domestic and personal* service are bootblacks, janitors, porters, servants, waiters, and guides. Clerical occupations, such as those of the bookkeeper, stenographer, and accountant, may also be classified under service production, though they are usually directly connected with some specific business or profession. Service is really an intangible good, and is produced by labor just as material goods are. Thus the doctor's advice, which is a very valuable service, costs the doctor chiefly mental effort, just as the shoemaker's work costs the worker mainly physical effort.

So many conditions and significant facts attend labor's activities in production that we shall have to devote an entire chapter to them (Chapter VI). This brief summary shows merely the wide range of those activities.

In which of the great occupational groups would you classify telephone girls, professional baseball players, florists, theater owners, shoemakers, postal clerks, brokers, ticket agents, storage and warehouse keepers, cemetery caretakers?

43. What Inventive Genius Achieves. — Among those whose contribution to industrial and social progress is far greater than their individual share are the inventors. They must possess both brains and inspiration. The inventor must be a pioneer — age-old habit would never even have dreamed of the radio.

Courtesy of Marmon Company

THE FIRST MARMON

This 1902 model does not look much like the cars put out by this company today, but it had numerous features new then, such as tonneau doors and controls on the steering column.

"Necessity is the mother of invention" is true of many of our modern appliances. When humanity really wants something in the way of an improved process or more efficient machinery, sooner or later somebody comes along and supplies it. And when something is invented, that invention soon leads to more.

The invention itself is always improved upon. Let us take for example the phonograph. At first the music or words to be recorded were played on a cylinder, and the instrument, though interesting from the start, was awkward to handle and ungainly in appearance. Constant improvements were made in the material and shape of the record

until its tones are almost perfect, and the machine has been transformed into an attractive piece of furniture.

Name all the improvements you can that have come from the invention of the steam engine, the gasoline engine, the electric motor.

Sometimes one little observation or experience may set a man to thinking. James Watt saw the steam moving the cover of a tea-kettle and wondered if it could not be made to

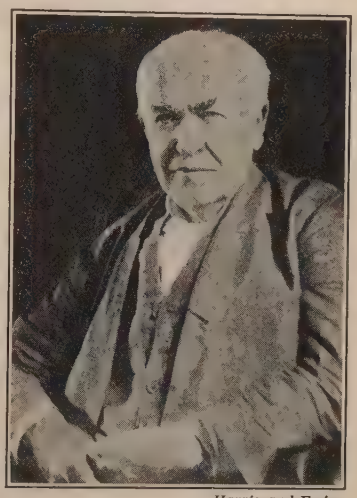
A City Telephone Exchange

Bell's first crude effort has been so developed that there is little resemblance between it and the complicated mechanism used to-day in the telephone business.

do something more useful. Now we have all sorts of steam engines. Eli Whitney, a Connecticut school-teacher, saw how slowly the negro workers on a Georgia plantation picked the seeds out of cotton, and thought there must be some quicker way. So he evolved the cotton gin. George Westinghouse was held up by a train wreck, and his resulting train of thought led to the air brake.

Some inventors, like those just mentioned, are famous for one notable contribution. Such was the case also with

Samuel F. B. Morse and the telegraph, Alexander Graham Bell and others who gave us the telephone, Charles Goodyear and his process for hardening rubber, and Charles P. Steinmetz in the field of electricity. Others, such as the famed Thomas A. Edison, have worked in almost every field open to inventive genius. In less than a generation such men have changed luxuries into commonplaces and impossibilities into necessities. An industry may hardly recognize its own methods after twenty years.



Harris and Ewing

AMERICA'S MOST FAMOUS INVENTOR

Even though over eighty at the time this picture was taken, Thomas A. Edison was still working daily as many hours as any one in his employ. Many more than a thousand inventions are credited to him, representing almost every form of industrial activity.

So valuable do great industries consider the work of inventors that some of the most progressive set aside large amounts of money to maintain experimental laboratories, in which people are employed for the sole purpose of finding better ways to do things. An individual inventor is often handicapped by not having the means to make and market his invention on a large scale. Such a person frequently has to allow some corporation to manufacture it, either on a royalty basis or by selling to the corporation his own title to it.

To protect one's rights to his invention or discovery he may secure a *patent*, provided his invention has not heretofore been made. A patent is a grant issued to an inventor giving to him the exclusive right "to make, use, or sell, for seventeen years, any *new* and *useful* art, machine, manu-

facture or composition of matter, or any improvement on another invention." Somewhat similar privileges, called copyrights, are bestowed on the composers of books, music, and other printed matter. A *copyright* runs for twenty-eight years, and may be renewed for the same length of time.

Does a natural-born inventor need to be encouraged to work? Do you have the right to make a copy of a patented article? How can you tell whether an article is patented? Show what some great occupation, like the manufacture of automobiles, owes to each of the inventors we have mentioned. How would you go about getting a patent or a copyright? What is a *trade mark?* How does it differ from the patent or copyright? What makes it valuable, if it is? Give examples of familiar trade marks.

44. How Capital Enters into Production. — We sometimes compare the labor forces in modern industry to an army. Whether the army is large or small, where is the material to come from to start the army going, and to supply the weapons and outfits for its use? Here is where the importance of capital comes in — capital and its related forces, organization and management. The bigger the business, the more necessary it is that large amounts of capital shall be available.

You will recall the definition of capital, " any product of past industry used in further production." A distinction is often drawn between capital and capital goods. *Capital* may be used to mean the total investment in the business in the abstract sense. *Capital goods* are the particular things that are used in producing more goods, such as factories, buildings, railroad tracks, saws, shovels, and the like.

Another distinction that is sometimes made is between *circulating capital* and *fixed capital.* Capital which can be used only once is called *circulating;* the seed which the farmer grows, the leather which is made into boots, the pig iron which goes into the mill, are forms of circulating capital. *Fixed* capital is that which can be used many times. Rail-

road engines, boilers, and buildings are of this type. Of course, these wear out finally, if not kept in repair, and in business some additional investment of capital has to be made to keep the fixed capital in useful condition. *Depreciation* must be reckoned as a part of the inevitable costs of business.

Courtesy of National Lumber Manufacturers Association

Logs in a Mill Pond

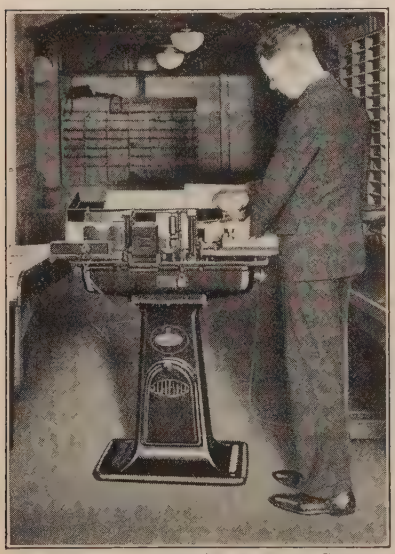
These logs are stored in this pond until such time as the mill needs to dispose of them. Are these land, capital, capital goods, or something else?

Still another contrast is between *free capital* and *specialized*. Economically speaking, *free* capital is that which may be used in a variety of ways; cloth which the tailor buys, before he makes it into garments, money when it is capital, and raw material in general, are examples of free capital. *Specialized* capital is that which can be used for only one purpose. Most forms of machinery are of this type.

Give examples of all these various kinds of capital as they appear in the newspaper business, the business of building houses, the school

business. Can capital be owned by the community as well as by private citizens?

If it is all-important for every business and profession to possess capital to some extent, the next question is, where is it coming from? Capital, at some time or other during its existence, is represented usually by a money value. It is somebody's savings. What men do not spend, they can use to bring in more profit. There are at least three ways in which capital may be obtained.



Courtesy of Postage Meter Company

METERED MAIL

Here is an example of highly specialized capital. Is there any other possible use for this machine? Once no one would have thought this work could be done by machine.

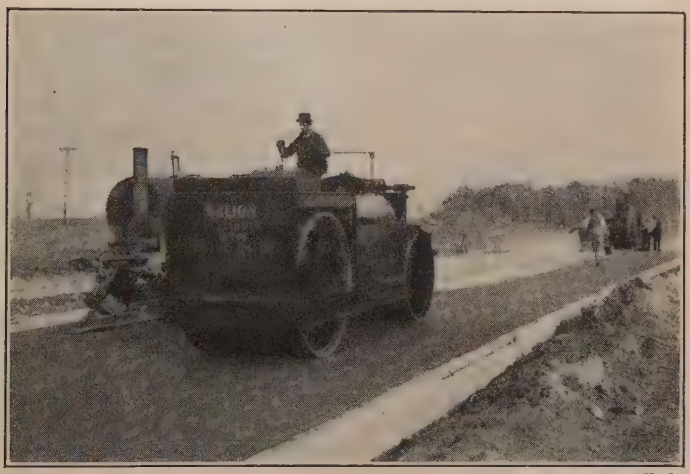
(1) The simplest way, though not always the easiest, is for the founders or managers of a business to use their own savings. The savings of two or more persons may be put into the same business.

(2) The savings of many people may be brought into one business through the issue of *stock* by corporations (§ 61).

For each share of stock that one possesses he receives certain rights to share in the profits of the business. The corporation is willing to grant this right in order to get money to put into the business. By this means people may be induced to invest money in industries which they themselves could not possibly operate.

(3) The third means of getting capital is the old but simple one of borrowing. In order to borrow, one must make people believe that their savings will be paid back. Banks

sometimes will lend money to individual proprietors, partnerships, or corporations; and in return take a *mortgage* on the property of the borrower. Then, if the money is not paid back when due, the property may be sold. Instead of the mortgage sometimes the lender will take *collateral*, as it is called, that is, stock or other valuable business paper



Courtesy of Galion Iron Works

One of the Last Steps in Road Construction

The heavy rollers pack down the surface coating and make it smooth. People do not make such roads by going out and merely smoothing the surface of the earth. They wait until extensive grading has been done, concrete or other material provided, and special machinery invented.

which can be sold in case the loan is not repaid at the proper time. Corporations also borrow money by selling bonds. The *bonds* are nothing more than promises to pay at a fixed time, with interest. If the corporation is successful in business, it can afford to pay interest on the bonds and still make money.

Suppose that you are going into business. Trace the steps that you might follow in the process of getting funds, assuming that the business is reasonably successful and expands as time goes on.

The constantly increasing use of capital is closely related to what we call "roundabout" production. Instead of scratching the ground with a stick, dropping some seeds, and letting them grow, we have to let somebody make a plow, a harrow, or a hoe, and store up seed from last year before we can plant anything. Instead of killing an animal and making some shoes out of the hide, we must wait until different people have raised thousands of cattle, brought them together and killed them, transported their hides to a place of work, made complicated and expensive machinery, and set up a factory where somebody else makes shoes to sell to a shoe-dealer who in turn sells them to us. Very rarely do we produce directly the thing we want. By "roundabout" production we mean the whole process of getting together the raw materials, the tools, and the business organization which together put the necessary utilities into the commodities that satisfy our needs.

Since our industrial system is dependent upon the use of capital and is steadily becoming more so, it is sometimes referred to as the "capitalist system" or as "capitalism." Those who are dissatisfied with the present economic organization often refer to capitalism as if it were a wholly evil thing, and as if it were some deliberately planned contrivance for crushing the worker and keeping most of the human race in poverty. Of course this is not so. Capital has become important not because selfish men with money to invest have set out to make it powerful, but because capital itself has been extremely useful in the improvement of economic methods. On the other hand, the economist would be the last person to assert that all capitalists intentionally work for the best interests of society.

To remove some of the prejudice against capitalism and the capitalist, some of the best managed of our great industries, like the Pennsylvania Railroad and the American Telegraph and Telephone Company, have tried to sell their

stock in small quantities to many thousands of small investors. As soon as a person begins to get a regular income, even though it is not large, from invested capital, he ceases to hate the word as much as he formerly thought he did.

As we shall see later (Chapter XVI), experience has shown us the need of controlling great industries having large amounts of invested capital so that their activities will benefit rather than injure the public. One may imagine a time when the government might itself become the great capitalist of a nation. But to get rid of capital or capitalism is unthinkable.

45. The Services of the Entrepreneur or Enterpriser. — Management is that factor in production which directs the whole enterprise and coördinates the activities of all the other factors. The manager decides how much labor is to be hired, how much capital is needed, and how much raw material or other forms of land will be required. In the case of the farmer, who may be really both the laborer and the manager, he would decide how much land is to be used for potatoes and how much for corn, what crops will be planted this year and what next, and how much work he will do himself and how many helpers he will hire and for how long.

Because no one English word quite meets the situation, we have employed the French term *entrepreneur* (äN′tr'-prē-nûr′) to signify the persons or person undertaking this risk and responsibility.[1] Sometimes we use an awkward English translation and call him an " enterpriser." Sometimes we refer to him as a " business man," but that term is rather indefinite.

The entrepreneur may " hire and fire " the workers. He gets together the capital and capital goods. He assumes the risks — he is responsible for the prosperity of the business.

[1] A literal translation of the French word would be " undertaker," but that would hardly do for this purpose.

The entrepreneur decides upon all questions of policy — his word is law. He is also responsible for the sale of goods. He does not necessarily sell the goods himself, but he must see that they are sold and think out selling policies. The entrepreneur usually owns some of the land or some of the capital goods. In some cases, he owns all of them. Management of a business is a tremendous factor in production to-day. Many business failures are the result of poor management.

Ewing Galloway

THE OUTSIDE VIEW OF A GREAT DEPARTMENT STORE

How important is the service of management in this establishment?

Who or what is the entrepreneur in a department store; in a baseball team; a school system; A. W. Smith & Co., florists? Is it necessary to centralize responsibility in the hands of one person or of at least a very few? May a person be an entrepreneur if the business in which he is interested is actually managed by a person on salary?

Production furnishes the means by which we live and enjoy ourselves. It supplies the commodities and services which gratify our wants, whether as individuals or as groups. All four factors — land, labor, capital, and management — play an inseparable and essential part in it. Land is fundamental, but whether used extensively or intensively, is subject to the law of diminishing returns. Labor's great army is catalogued by the Census Bureau in nine divisions, each supplying one or more utilities to the goods we need or want. Capital furnishes the "wherewithal" by which materials, tools, and services are obtained. Management directs the whole process, and the manager or entrepreneur is the adventurer and risk-taker of business.

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Special Studies

Great Inventors of the Eighteenth Century
Great Inventors of the Nineteenth Century
Great Inventors of the Twentieth Century
Land Cultivation in China and Japan
Land Cultivation in Our Great West
The Relative Importance of Intensive Cultivation in Europe and America
The Work of the Law of Diminishing Returns in Different Types of Occupations
What Modern Business Owes to the Entrepreneur
The Mechanical Man — Is He a Practical Possibility?

CHAPTER VI

THE WORKERS AND THEIR WORK

With his two hands, with shovels, hammers, wheelbarrows, with engines, conveyors, signal whistles, with girders, molds, steel, concrete —
Climbing on scaffolds and false work with blueprints, riding the beams and dangling in mid-air to call,
Come on, boys—
Man made the skyscrapers.

— SANDBURG

One does not need to belittle the economic value of land in order to realize how important a factor in industry is labor. It is labor that thinks. It is labor that makes land do things. It is labor in the form of management that applies capital to land and thereby gets results. If there is any distinction among the factors, the interests of labor must come first. We must have workers numerous enough and intelligent enough to make land and capital as useful as possible.

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46. Workers in Primitive Days. — Throughout the history of mankind, there has always been some kind of work — there had to be in order for man to live and progress. Man has progressed in his methods of work just as he has in any other field. Can you picture a man tilling the soil with his back-breaking hoe, following row after row in the blazing sun? No other human beings are near save his own family. A few cattle he can call his own are feeding in a near-by pasture. A short distance away you can see the humblest of cabins, inside which is the crudest of furniture. This picture is not so very remote, after all. You may even yet see it in our own country, and might have seen it in other countries many thousands of times if you were no older than many a man now living.

In the day-dawn of the human race most men worked and earned their living in that way. Each was his own farmer, tailor, butcher, carpenter, doctor, and teacher. Perhaps we had better say that each family did all those things for itself, for the women worked as hard and as faithfully as the men. Family duties were divided between men and women. Longfellow's *Hiawatha* tells some of the features of women's work among the Indians:

PLOWING IN THE OLD WAY

Here are the old-fashioned plow and motive power. Many women would not think they could do the kind of work in which this Middle-Western woman is engaged.

From the ground fair Minnehaha,
Laid aside her mat unfinished,
Brought forth food and set before them,
Water brought them from the brooklet,
Gave them food in earthen vessels,
Gave them drink in bowls of basswood.

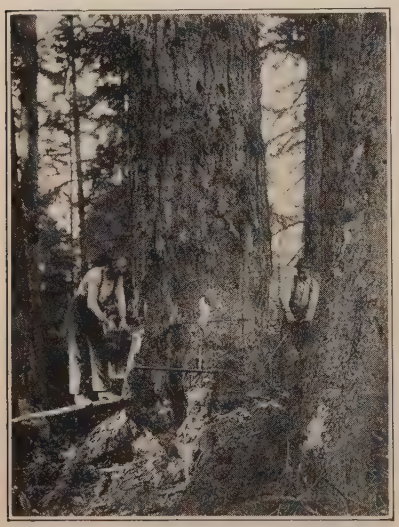
* * * * * * *

And they called the women round them,
Called the young men and the maidens
To the harvest of the cornfields,
To the husking of the maize-ear.

Does the division of work between men and women that prevailed among the Indians seem reasonable? Is the division of work between men and women that one sees most commonly to-day fair and reasonable? Why do women usually do the housework and the men most of the outdoor work? Is there any reason why women should not work outdoors? Do they, in any place that you know? Is there any advantage in being a jack-of-all-trades? any danger?

47. Coöperation and the Division of Labor. — We have seen that all the factors in production must work together.

We may call this *coöperation* or association. Labor itself will fail to accomplish a great deal without it. The earliest method of working together we may call simple coöperation. When you see half a dozen workmen rolling a big piece of sewer pipe into place, you realize that simple coöperation has never been entirely outgrown and never will be. It means just this — several people putting their strength and brains together to do something that no one could do by himself, and all doing practically the same work.



Courtesy of National Lumber Manufacturers' Association

SIMPLE COÖPERATION

These men are engaged in a big job, but in pulling the saw back and forth they are doing work of the same nature as did the very earliest workers.

Still, every one cannot do everything. There is always something that some one can do better than you. In primitive days, just as to-day, all men might not have been able to make shoes, for instance. If shoes were necessary, one man might offer another a bundle of wheat for a pair of shoes, or some other commodity that he produced and that the other would accept. At first such simple transactions as these made up all the business of the time. As the population grew, the shoemaker might find that he could supply all his needs by making shoes and trading for what he wanted. In the same way other occupations sprang up and developed into the separate trades and professions of to-day. Indeed, many family names come from the fact that some one of the family

ancestors at one time was a Miller, a Baker, a Carpenter, a Schumacher, or a Schmidt.

Thus *division of occupations* came about. To-day, instead of one man's building his house by himself, as the primitive man did, the house is built part by part by a large variety of men, including carpenters, bricklayers, plasterers, electricians, and plumbers. The next step after division of occupations was *division of labor* within the same occupa-

Wide World Photos

MAN POWER IN TRANSPORTATION

This — a common scene in a Shanghai street — is an example of division of labor not particularly common in our country.

tion, so that different workmen perform different parts of the same industrial process. In the business of supplying milk to a city or town, some men take care of the cows and milk them, others have charge of shipping the milk to the city, still others are drivers of milk wagons, and one or more persons manage the business as a whole.

To-day we are familiar with an extreme form of division of labor called *specialization*. It has been said that there are as many as two hundred different processes employed in a modern shoe factory and each one of these two

hundred is often performed by a different worker. We have specialization in almost every field. We even find specialization in farming. We have dairy farmers, wheat farmers, poultry farmers, and others. Among the professions are doctors, lawyers, teachers, pharmacists, engineers, and dentists. Some of these professions are again divided. There are many kinds of teachers; some teach economics, some English, others biology. Some doctors specialize in the treatment of the eyes and ears, others take only nervous cases, and so on.

Take five classes of industrial activity prominent in your community and show the extent to which division of labor exists in each. Is division of labor possible on a single farm?

48. Grades of Workers. — The great mass of workers who constitute the vast body of the industrial army, if we may so describe it, are themselves of widely varying abilities. Some are *unskilled workers*. Their task is simply to supply the muscular force or the quickness of movement that takes no particular training to develop. The man who digs the ditch or the woman who addresses envelopes does work that any person with very simple intelligence could perform.

Semiskilled Women Workers

These girls and women sort out the asparagus into different lengths and sizes.

The *semiskilled worker* cannot jump into his task without some experience. There are certain things he must learn to do. The wood chopper, the man who handles lumber in a planing mill, and the street-car conductor must all be trained for their jobs. It takes a relatively short time, however, to acquire the neces-

sary qualifications for such employment. Of course, semi-skilled workers are to the extent of their training superior to unskilled workers.

A *skilled worker* must possess sufficient intelligence and experience to plan his work as well as to perform the routine parts of the process. He must be able to adjust his activities to any particular job to which he may set himself. A plumber, a carpenter, or a printer, for example, must be able to do something more than mere mechanical carrying out of orders. He must be more than a machine, and must show initiative and even originality in his work.

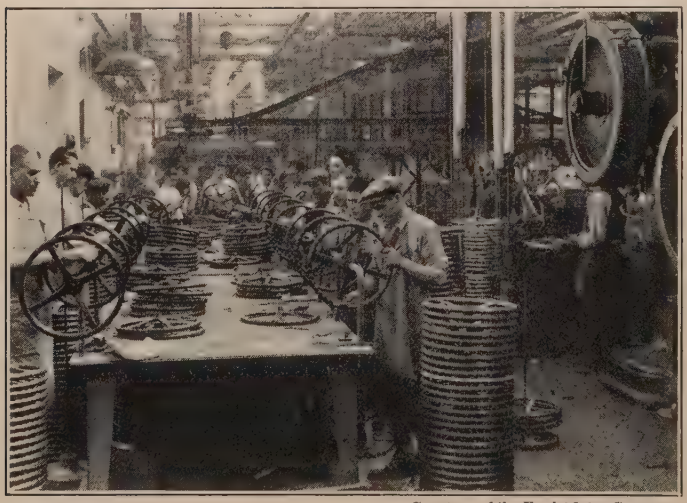
Is unskilled work necessarily manual work? Is "white collar" work necessarily skilled? Give examples of different types of work that belong in each grade. Compare the fitness of each of these grades of workers to receive high wages. Is unskilled labor necessarily unimportant? Mention five examples of real activity that are not labor in the economic sense.

49. Effects of the Division of Labor. — Now that we have traced the development of the division of labor the question may have occurred to you, is it advantageous or not? We must admit that when a man does the same thing hour after hour, day after day — a very insignificant part of the whole process — the work may become monotonous. It comes to be a matter of routine and habit, and the worker's ability to think for himself and meet new situations may become dulled. His initiative may completely fade out. How would you like to tighten two nuts 2000 times a day for five years? Yet there are people who succeed in that kind of job, and some of them become used to the routine, and even like it.

Besides, the narrow horizon of such workers may affect their thought, action, and speech. Particularly necessary is it in such cases that the workers have outside of their jobs that change, recreation, and broadening interest which their daily toil does not give them. One would find it hard to work up much enthusiasm in thinking that he is one of two hundred people who make shoes. If he is to

live as a real human being, he must have a chance to enjoy a wider range of human interests outside his factory.

On the other hand, two big advantages result from the division of labor: *better work* and *increased output.* The division of labor has enabled many workers to limit their efforts to work which they like and can do well. One acquires much greater skill by doing the same thing repeatedly.



Courtesy of the Ford Motor Company

SPECIALIZATION IN WORK

Each of these men is engaged in the same process — putting steering wheels together. They have nothing to do with any other part of the machine.

When one first tries to typewrite, the operation of the machine is extremely slow, but after one learns the method and practices for a while, a high rate of speed may be acquired. It is the same with almost any other work that is done with human power. If a man has to perform only one process in the field of industry, he can learn it much more quickly than if he had to learn the whole business. Men doing one thing and nothing else can learn to do it perfectly, and can do it even without putting their mind on the process. There

is a great saving per unit of production in both time and expense in the process of producing some article, when each step can be handled at one machine or at one bench instead of requiring each worker to have all the different tools or machines which the making of the commodity requires.

Specialization has meant the use of machinery on a large scale. This itself has immensely increased the amount and

Courtesy of Vermont Marble Company

HIGHLY SKILLED WORKERS

To carve these designs out of marble requires both talent and experience.

variety of goods produced, and usually reduced the cost of production per unit. If pencils had to be made by hand, could they possibly be sold for a cent apiece?

Highly specialized division of labor results in increased dependence of one individual upon another. Think what it would mean if, in a shoe factory, those who put on the heels refused to do their work or to let anybody else do it, or if the railroad engineers all refused to run their trains.

So one may list the favorable results of the division of labor: (1) improved quality, (2) increased quantity of out-

put, (3) reduced cost, (4) increased variety of products, and, perhaps, (5) mutual interdependence.

Professor Thompson says that these four qualities are necessary for the effective division of labor: honesty, obedience, steadiness, fairness. Do you agree with him? Are these qualities more important than skill in doing the work? Now that physicians, teachers, and the like specialize more than formerly, does it take a shorter time to learn the profession? Why?

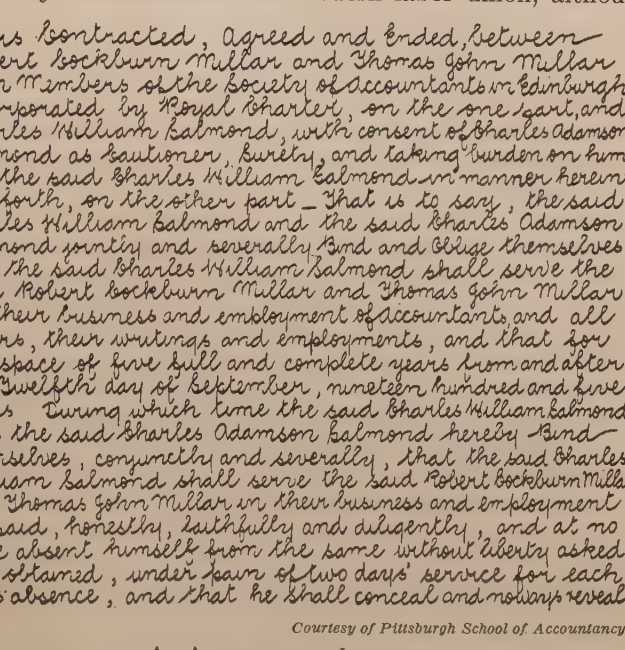
50. The Separation of Employers from Employees. — When we consider the number of persons engaged in any one business, what a tremendous difference we observe in the space of two centuries! Instead of one family or a few "hired help" carrying on the work of a small shop, there are now hundreds of business organizations in the United States each employing an army of workers larger than any Washington commanded during most of the Revolution.

It was not at all that way in the old days. Man's earliest "economy" (system of management or economic system), was *domestic*. Each family worked as a unit. There were no employers, except as the head of a family had complete authority over its members in all respects.

Then shops grew up in connection with homes. Instead of assuming risk and responsibility themselves, some men preferred to sell their labor for wages. These were held to account for the quality of work which they performed, but when the day was over their responsibility was ended until the next day. If one neither furnishes the tools he works with nor has any risk at stake in a business, his status becomes definite and distinct. He is an *employee*, and the one who hires him and operates the business is an *employer*. Yet as long as shops remained small and the workers in any one place were few, there was no great social difference between employer and employee. They were still business associates and often personal friends.

An interesting feature developed by manufacture in the towns of Europe in the Middle Ages was the *gilds*. These

societies established definite standards of quality for the goods which their members produced. They regulated the compensation of men connected with a trade. Every one, master, journeyman, or apprentice, who had a part in the trade, was a member of the gild. In this respect the gild was very different from the modern labor union, although



It is Contracted, Agreed and Ended, Between Robert Cockburn Millar and Thomas John Millar both Members of the Society of Accountants in Edinburgh, Incorporated by Royal Charter, on the one part, and Charles William Salmond, with consent of Charles Adamson Salmond as Cautioner, Surety, and taking Burden on him for the said Charles William Salmond in manner herein set forth, on the other part — That is to say, the said Charles William Salmond and the said Charles Adamson Salmond jointly and severally Bind and Oblige themselves that the said Charles William Salmond shall serve the said Robert Cockburn Millar and Thomas John Millar in their business and employment of Accountants and all others, their writings and employments, and that for the space of five full and complete years from and after the Twelfth day of September, nineteen hundred and five years During which time the said Charles William Salmond and the said Charles Adamson Salmond hereby Bind themselves, conjunctly and severally, that the said Charles William Salmond shall serve the said Robert Cockburn Millar and Thomas John Millar in their business and employment foresaid, honestly, faithfully and diligently, and at no time absent himself from the same without Liberty asked and obtained, under pain of two days' service for each day's absence, and that he shall conceal and no ways reveal

Courtesy of Pittsburgh School of Accountancy

AN APPRENTICESHIP INDENTURE

This is part of a modern agreement, but in form and language it is similar to those made when the apprentice system was common.

in some ways it reminds us of them. In many communities gilds even acquired political power and adopted regulations which applied to the entire community.

After a time the importance of the gilds declined and, instead of unified control over a trade, there developed a system of competition. Each employer with his few workers maintained his own shop and disposed of his goods on the

best terms he could. The gilds were finally prohibited by law in several European nations on the ground that they interfered with freedom of trade.

The tremendous change brought about by the Industrial Revolution and the factory system wrecked any further possibility of close personal associations between an employer and many of his employees. An employer could not, if he would, be personally acquainted with a thousand workmen. The employee could not, if he would, furnish the

Courtesy of Gillette Safety Razor Company

THE EMPLOYEES OF A LARGE FACTORY

Could an employer possibly know everybody shown in this picture? This establishment has 2300 employees. How many hours of working time all told do you suppose were lost while this picture was being taken?

tools and machines needed for the only work available. Consequently the industrial positions of the employer and his employees are quite different to-day, and many are the perplexing situations that have resulted from that fact.

Are there any desirable results that come from a separation between employers and employees? Should there be any social distinction between them? Should one think of *employer* and *capitalist* as meaning the same?

51. The Problem of the Supply of Workers. — If there are not enough laborers to do the work that needs to be done,

some one must suffer for lack of goods which he needs or wants. If there are too many workers, then some of them must suffer because they have no means of earning the things needed to keep them contented or even alive. To keep a balance between the number of workers needed and the number of workers available is sometimes a disturbing problem.

In the latter part of the eighteenth century an English student of this subject, Thomas R. Malthus, became greatly alarmed at the outlook as it appeared to him then. When he published his *Interpretation of the Times* (1798, 1802), much attention was attracted to it, and people began to be frightened. His idea was that the population of the country naturally increases from generation to generation far more rapidly than the ability of the country to supply food and other necessities. In fact, he could see no way out except that there must be war or famine or some other calamity in order to get rid of the extra population.

The years that followed the putting out of his predictions did not prove to be as gloomy as Malthus thought they would. The Industrial Revolution resulted in an enormous expansion of industrial activities and a great number of inventions and new methods. All these called for a great increase in the number of workers and made it possible to supply articles enough to meet all their needs. Expanding trade and commerce enabled men of different nations to exchange their products and thus relieve the strain upon a nation which found it hard to produce everything its people wanted. There is not now in this country much fear that Malthus's prophecy will become a reality.

The conditions that affect a country's population are, naturally, the relation in numbers between births and deaths, and between emigrants and immigrants. Practically every civilized nation shows a decidedly declining birth rate, but also a greatly reduced death rate. In this country we have seen a wonderful increase in the number of people from the days of the first census to the last. The first census in 1790

recorded almost 4,000,000 people. Now we have about 120,000,000. Europe and Asia have also shown great increase, but no country has had its population increased by immigration to the same extent as the United States.

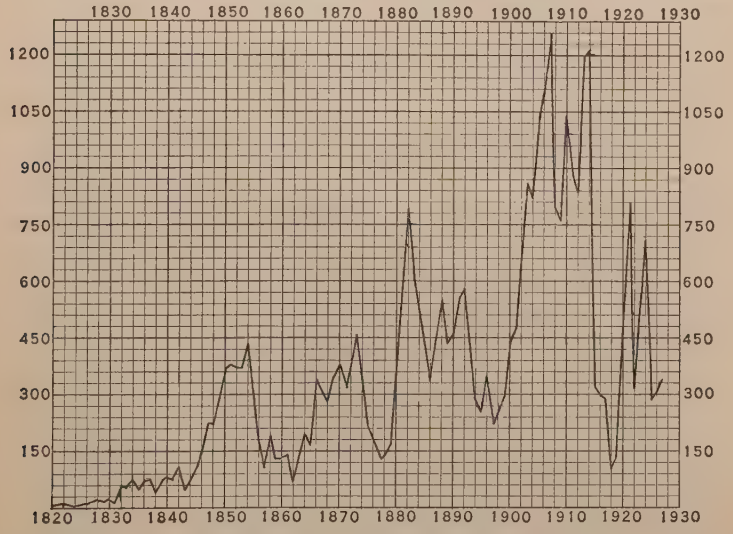
52. Emigrants and Immigrants. — People emigrate for various reasons. Some are dissatisfied with conditions at home and think they can get rich if they go to another country. The tyrannical governments of some countries have driven many of their people to foreign lands. Others have emigrated to escape the compulsory military training upon which some countries have insisted. Until recently the great mass of emigrants from Europe seemed to want to come to the United States, but now Argentina, Brazil, Australia, and Canada are receiving many.

After the United States gained independence, immigration did not become large enough to attract attention until the period from 1840 to 1850. Then the famine in Ireland and the disturbing political conditions in Germany caused thousands from those countries to come here. Toward the end of the nineteenth century the source of immigration changed. From southern Italy, from Austria-Hungary, from Poland, and from Russia hundreds of thousands each year poured into the United States. They were a new type of immigrant in many cases, too, speaking unrelated languages and possessing different customs and ideals. They were largely unskilled and fit for only the lower kinds of labor. They crowded into cities already thickly populated and refused to go into the country districts where land was plentiful.

Why do you suppose this happened?

Many of the problems of immigration are related to politics, patriotism, and social conditions as well as to economics. It is plain, however, that to absorb vast amounts of unskilled labor is not by any means an easy thing to do, even for a great country. Immigrant workers usually are glad to accept

wages lower than those which Americans care to work for. They may keep native workers out of a job and thus lower the general standard of living. If the alien laborers are of the kind that can be easily worked upon by dangerous agitators and have no appreciation of American citizenship or American ideals, a condition will result which will menace the safety of American industry. Moreover, we have all



Immigration into the United States

The figures at the sides indicate the number of thousands of immigrants. The irregular line traces the number year by year since immigrants were first counted. Can you explain from your acquaintance with the history of this country and of Europe the high and low points of the line?

the workers we need in some places. Some means of spreading them out must be devised if our highest industrial interests are to be maintained.

A long time ago (1886) Congress forbade the importation from other countries of workers hired in large numbers, under contract, by employers here. Our present immigration law permits a total of 150,000 immigrants in one year, and

limits the number from any particular nation to a proportion of 150,000 corresponding to the percentage of our whole population who trace their ancestry to that nation. Only the white races and negroes are admitted to this country to stay permanently. The indications are that this policy will be pursued by the United States for some time.

To refuse to acknowledge the good points of the immigrant, however, would show either ignorance, prejudice,

© *Keystone View Company*

AN IMMIGRANT FAMILY AT ELLIS ISLAND

Do they look as if they would be good workers and loyal American citizens?

or malice. Who would have done the vast volume of work which they have performed, if there had been no immigrants? Would native Americans have done it, and if so, would they have had time to advance socially and culturally? Sometimes immigrants are better than natives for certain kinds of work. On a job in one of the Western Electric Company's factories, it was found that 62 per cent of Germans, Austrians, and Scandinavians, 50 per cent of Czechoslovaks

and Poles, but only 19 per cent of native Americans, really made good at it.

Labor organizations have been very active in urging the restriction of immigration. Can you tell why? Which is better, a large supply of ignorant workers or a smaller supply of good ones? List in parallel columns the good results and harmful results of immigration. What is the purpose of a racial basis for the restriction of immigration? Do you think there is a sound reason for it? Does it require any praiseworthy qualities to become an immigrant to-day? If so, are they the same as in 1720 or 1820?

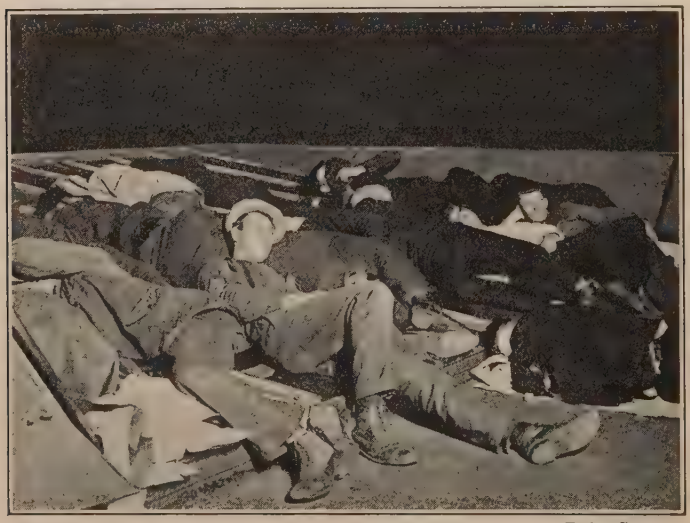
53. The Problem of Unemployment. — We have said that laborers must be happy in order to do their best work. It is even more essential that they have something to do. At different periods in the history of our country there have been thousands of men and women who wanted to work but who did not have employment. It is probable that in such a large and diversified country as ours there is sufficient work to do at all times to keep busy any one who is willing to be employed. What, then, is the matter? In the early part of 1928, it was estimated that 3,000,000 people were unemployed. In spite of this, the economic condition of the country was declared by its officials to be good. How could that be?

There are some, of course, whose physical health is not good, or who are otherwise unable to do the work of the average worker. Possibly they have been injured and have not recovered their former skill or physical strength. For such people we can never expect employment on regular work if it is at all difficult.

Another real obstacle is the inability of some people to do anything well. Perhaps they have never been trained for a particular trade or profession. The remedy for this difficulty may be more vocational guidance in school. But if the trouble is laziness or a lack of responsibility, the only cure for it lies in the person himself.

Another reason why we sometimes find people unemployed

is that certain seasonal industries are not busy all the year round. The farmer needs special help at certain seasons but not at others. The stone mason cannot work to advantage in certain kinds of weather. The ice-man is not particularly in demand in the winter. It is hard to see how this difficulty can be completely overcome unless there can



Ewing Galloway

NO PLACE TO GO

These men were out of work. A public park was the best place they could find to sleep. Do you suppose they are to blame?

be an alteration of the kinds of work done by one worker in different seasons of the year.

Changes in industrial methods sometimes cause unemployment. A copper-refining company reported that between January 1, 1918, and August 1, 1927, it increased its output 10 per cent and cut its working force over 50 per cent. Machines replaced many workers in that case as in many others. Workers have sometimes been so enraged over the installment of new machinery which seemed likely to throw many of them out of their jobs that they proceeded to wreck

the new machines. This happened a number of times in England in the early days of the Industrial Revolution. Usually, however, it is not long after new machinery is put in that increased production calls for as many workers as ever.

When business is slack in some line, a considerable number of men may be out of work temporarily. Strikes may make thousands idle for weeks or months. It has been proposed that the construction of public works such as new streets, bridges, and the like should be constructed by the unemployed. But, apart from the fact that the workers out of a job are likely to be, on the whole, less efficient than the rest, there would be no assurance that the list of unemployed on any special occasion would include many workers suitable for the particular work undertaken by public authority.

Ewing Galloway

A Skilled Workman

Only an experienced worker could do this task quickly and well. When the packing season is over do you suppose he will stay in the town where he is now employed?

Another cause of unemployment is frequently referred to as the immobility of labor. If a man has been a miner all his life, for instance, he is not willing to leave that work and try something else, even though the field is overcrowded. Men who have the capacity and knowledge to do good work are sometimes unwilling to go to a new community or different section of the country, even though their chances of getting employment would be much better

there. If they or their families have always lived in a certain neighborhood, they hate to break away from old friendships and relations. The city worker is usually unwilling to go to the country. This immobility of labor is one reason why the standard of wages is low in some neighborhoods.

Sometimes, too, when a worker is perfectly willing to go wherever he can find employment, and when he is entirely able to work at a trade or profession, he is still unemployed, or is a misfit at the job which he is trying to hold. There may be many jobs for him somewhere else, but of what use are they to him if he does not know where they are? This cause of unemployment would seem to be more easily remedied than any other. In the attempt to prevent such unemployment various government agencies have established employment bureaus in different cities. These employment bureaus keep in touch with each other and learn where there is need of workers. Then a man without a job can learn where he can go to get one. Certainly this problem of unemployment is of such importance to the community and nation that most of it should not be handled haphazardly by private employment agencies, but should be supervised by the government.

Does it make any difference to you whether John Smith is out of a job? Why should the community care about the matter? Is it correct to speak about the *right* to work, as the Russian constitution does? Is it sound economics to spend money and time in saving cripples and defectives who can never do a man's work? Should every child learn a trade while he is in school? Upon whom does the responsibility rest for seeing that the child shall be fitted to do something? Under what circumstances would you be justified in refusing a position that you knew you could have? Are there any places where you would not work? Why? What do you understand by *migrant laborers?* What conditions, socially and economically, are likely to exist among them? Is the immobility of labor likely to increase or decrease?

54. The Problem of Adjustment. — Another principle that contributes greatly toward both individual and community

welfare is known as *the law of least social cost.* It declares that *if individuals or communities engage in work they are fitted by nature to do, they will do more and better work than under other conditions.*

A Vermont farmer perhaps could raise watermelons, but how much greater would be the expense of time, labor, and money if he tried to take the job away from the Georgia planter! Far better would it be for the Vermont farmer to raise more hay, corn, or apples, which would grow in his climate with a reasonable amount of toil and expense.

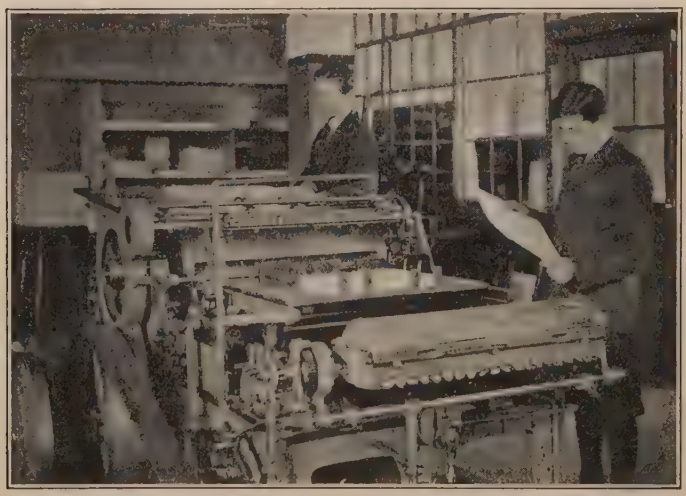
The same principle holds good with men and women. Usually the thing you can do best is something that you like to do. One's job can make him cheerful and happy or sour and disagreeable. Put a man who likes outdoor life at a job where he works over books for eight hours a day, and in a little while he will be a nervous wreck and his books and accounts are likely to be in rather bad shape. Set a college professor to work in a boiler factory and you can imagine the result. That is *maladjustment* indeed, a situation where a person is out of harmony with his environment — a square peg in a round hole.

Under what circumstances, if any, would a person or a city be justified in undertaking work which was not particularly suited to its talents or environment?

Vocational adjustment deserves serious attention, in industry and in school life. If it can be brought about in industry, it will mean much in relief from unemployment, in efficiency of labor, and in contentment of workers. A worker who feels that he must stay on a job for which he is not particularly suited has some opportunity, through night schools and correspondence courses, to qualify for more attractive work. But the best way to handle maladjustment is to prevent it.

That is why vocational guidance is a big factor in school life to-day. In a school with a diversified program, pupils

become acquainted with many kinds of work through subjects in their school courses. They can take different kinds of shop work or office work or art or language. Vocational counselors may give advice to pupils in regard to the type of work for which they are fitted, and the best means of preparation for it. Conferences may be held between people who are already prominent in some particular field and a



© Boston Photo News Company

TRAINING FOR A TRADE

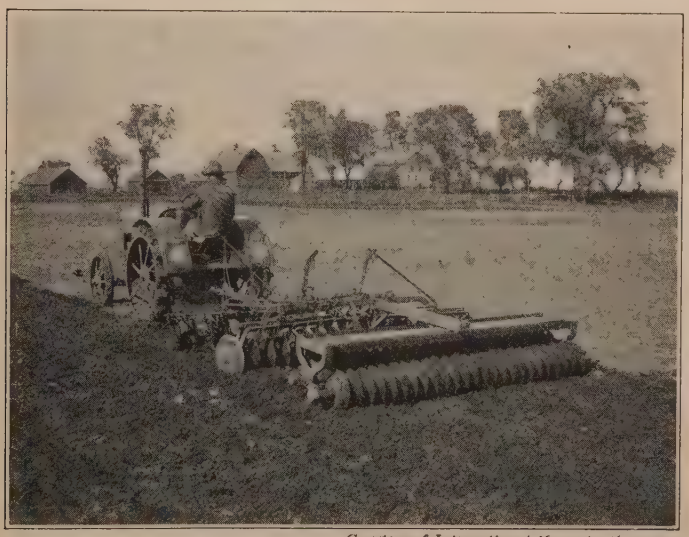
Our schools now offer specific training for particular trades. These boys are learning printing.

group of pupils interested in that work. The object of it all is to save them from making wrong choices. One may find it difficult to tell just what field he belongs in, and he may have to try several before deciding.

Upon what would a counselor base his opinion of one's qualifications for a particular occupation? Can he judge your talents better than you yourself? Why do too many people go after "soft-handed" or "white-collar" jobs? Can the tendency be corrected? To what extent would you vary school courses — between city and country? between girls and boys? between persons of high and low intelli-

gence? Should college education be free? Make a list of ten persons with whom you are well enough acquainted to find out why they went into their present occupations, and tabulate the reasons why they did so. Would early advice have made any difference in any case?

Structural iron workers may get $3500 or $4000 a year. Men bookkeepers may get from $1800 to $2500. Why don't the bookkeepers all become structural iron workers? If ditch diggers were as well paid as lawyers, would you be a ditch digger?



Courtesy of International Harvester Company

A Western Farm Scene

These farm buildings suggest that the owner lives comfortably and keeps his property in good condition. Does this kind of farm labor seem unattractive to you?

55. Farm Labor Problems. — The farmer's problem of labor supply is even harder to handle than that of a city employer. Perhaps if you have ever been on a farm, you will understand the situation. If not, it may be a trifle hard to realize why some of the farmers have trouble in getting "help," when there are so many workers in the city.

In the first place, farmers do not want the same amount of labor the year round. At planting time and harvesting time, there are busy hours and plenty of them. Then they need much help, but in the winter they do not. They cannot pay wages high enough during the rush seasons to justify a worker in remaining idle during the remainder of the year. Since the wages usually include meals, they do not sound as large to a city worker as they may be in reality. The city worker, too, thinks that farm life is dead, that there is nothing to do but work hard and go to bed. He wants movies and other types of recreation which the farm community cannot give him. Children born on the farm, too, get such exaggerated ideas of the delights of city life that they become discontented and do not want to stay in the country.

THE RECENT FLOW OF RURAL POPULATION TO CITIES AND TOWNS

During Year	Persons Leaving Farms for Cities and Towns	Persons Leaving Cities and Towns for Farms	Net Movement from Farms to Cities and Towns
1922	2,000,000	880,000	1,120,000
1924	2,075,000	1,396,000	679,000
1925	1,900,000	1,066,000	834,000
1926	2,155,000	1,135,000	1,020,000
1927	1,978,000	1,374,000	604,000

These figures are from an article by Merryle Stanley Rukeyser in the *Review of Reviews* for November, 1928. Considering the total population of the country, do they indicate an extensive movement in either direction?

The unattractive features of the farm loom up so large in the mind of many a possible worker as to hide the advantages of farm life. No one else can live so cheaply and at the same time with such reasonable comfort. Few workers are their own masters to quite the same extent as the farmer, in spite of the long hours at certain seasons. The feeling

that the country people, because their houses are not crowded together, are not neighborly and agreeable has absolutely no grounds. This is much truer in the congested city. The better type of farm community to-day has telephones, radios, and automobiles in greater proportion than city people.

Courtesy of International Harvester Company

PICKING CORN BY MACHINERY

This machine saves the work of several laborers. Such methods give the farmer much more leisure.

Farm crops are absolutely necessary for the support not only of the rural community but of the city dealer. The steel worker in Pittsburgh, the woolen worker in Lawrence, the carpet maker in Philadelphia would be far worse off if farmers went on a strike than if they themselves did. If crops are raised and then, because labor cannot be obtained, rot on the ground, there is an enormous and real money loss to the entire country. This is one of the reasons why the cost of food products is higher than it really needs to be.

Increased wages on the farm probably must come if the farmers are to get enough workers to keep things going. Advertising all the attractive features of farm life should take the place of the constant allusions to "rubes" and "hayseeds" that we find in the funny pages and hear from the stage. The governments of state and nation can render no more important service through their employment bureaus than to keep the worker on the farm or bring a willing worker to it.

Why do you or do you not like farm work? Should city people be willing to pay high prices for milk and other farm products to enable farmers to pay good wages?

56. The Work of Women. — Until very recently occupations in which women engaged outside their homes were few. In saying this, of course, we do not refer to the very primitive ages when women did the planting and harvesting and other outdoor duties which later men assumed as theirs.

There are different viewpoints in regard to the fitness of women to go into the world of industry. The emergencies of the World War took them into scores of places where they had never gone before. Now that they are there they show an unwillingness to withdraw. The number of women now gainfully employed in the United States must reach ten or twelve million. The majority of these are under twenty-five years of age. Why shouldn't they work, rather than loaf at home? It is much to their credit that they are willing and sometimes very anxious to do so. But if these young workers should spend their entire active lives in industry, it would mean a change in social conditions which we cannot look upon with entire satisfaction.

Women vote and take the place of men in many instances. For some positions the work of women and men is equal in quality; as stenographers, typists, and telephone operators, girls and women are usually preferred. Many women work because they want to be independent; others are forced to

work because they must earn their own living; still others prefer a "career" to keeping a home. One difficulty is the fact that women sometimes work for extremely low wages. Some employers take advantage of this to discharge men and employ women at barely a living wage. Such workers are of course only unskilled laborers — drudges, day in and day out. Minimum wage laws passed by some of the states help a little to improve the situation, as they set a definite figure which must be complied with by men who hire women workers. But that figure is usually pretty low.

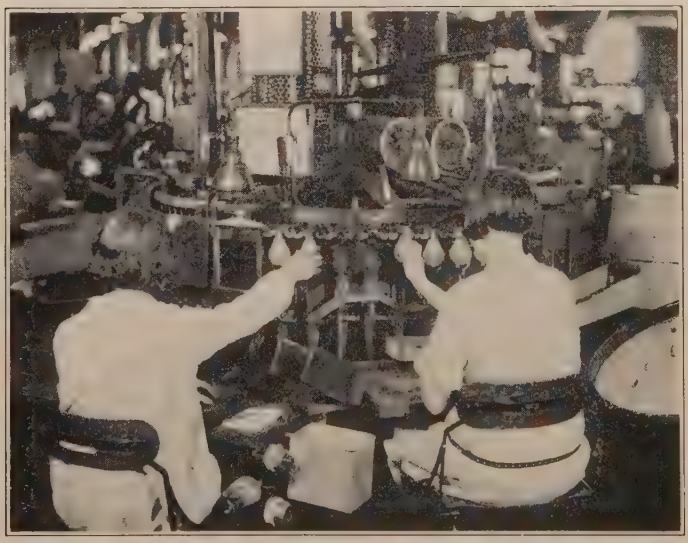
It is sometimes urged that a minimum wage law interferes with a worker's freedom of contract. What do you think of this argument? Do you see any disadvantages in a minimum wage law?

Our law-makers have believed that the work of women needs to be safeguarded and regulated to an extent much beyond that of men. And there are sound reasons for that view. For one thing, women have not shown the capacity or tendency to organize themselves for their own industrial welfare. Perhaps this condition will not always prevail, but it has been the case in the past.

In the second place, if women are permitted to work as long as they please there are great dangers to health and to the welfare of society. Too often when women go into industry, they neglect their home life entirely. They and their children and future generations will suffer for it. At any cost the home, which is the root of all society, must be maintained. Women are not physically as strong as men and cannot stand as well the strain of long hours at manual labor.

Most of our states, therefore, have laws limiting the number of hours a week at which a woman may be employed in industry to fifty-four or less. In some cases they also forbid women to be employed in certain occupations such as quarrying or mining. In addition, other provisions are meant to secure conditions of work which will keep girls from overworking and will enable them to care properly for their health.

Disregarding the element of physical strength, can women do as good work as men? Will the fact that women as a rule are not under the same obligations to support others that most men are under have a lowering effect upon the wages paid by industries? Should a woman who does not need to earn money take a job which a man would otherwise get? What is likely to be the attitude of an employer who is hiring women workers who may leave him to get married at any time? What effect is this possibility likely to have on their wages and their interest in their work?



Courtesy of National Lamp Works

COMFORTABLE GIRL WORKERS

These girls are testing electric light bulbs. Notice the provisions that have been made for them to sit comfortably during the hours they must stay at this work.

57. Child Workers. — One would think that in a country as enlightened as we claim to be there would need to be no discussion of child labor and its industrial effects. Why, then, do we have it?

To answer this question we may recall the tremendous change brought about in industry by machines during the

time of the Industrial Revolution in England. So many more workers could be used in the factory to do things that required no special intelligence, that children were engaged at starvation wages and employed in some cases as long as fourteen hours a day.[1] Poverty-stricken parents saw a chance to add to the family income. A lazy father even might live more comfortably if his children were at work. Children themselves sometimes got false notions of the importance of their places as workers in industry. A very little money looks big to one who has never had any.

The English Parliament enacted laws to change these conditions when it discovered how bad they were, but the evil of child labor was not limited to England or to a century ago. In this country child labor has also worked its ravages. When the cotton mill came to the Southern states, for instance, the employment of children in factories became extensive. Factory managers inserted " ads " in the newspapers, calling not for workers but for whole families.

It was hard to regulate by private influence the employment of children. Moreover, children cannot easily be organized as workers and they often did not understand the evils which they were bringing upon themselves. Frequently they have no other reason for working than that they are tired of school. It was therefore very necessary that the government should take action on this problem which threatened the health and happiness of several millions of young Americans.

Children employed at full time in a factory can get so little schooling that it is practically worthless. The nature of their labor makes it impossible for them to obtain a normal physical development. Accidents sometimes cripple them for life. Association with all kinds of demoralizing condi-

[1] We need not think that factory owners were always careless or that they deliberately chose to be cruel to their workers. Sometimes they thought they were forced by the stress of competition to use cheap labor in order to keep down the costs of production.

tions and with older people of loose language or habits cannot help lowering a child's morals.

Laws of Congress prohibiting the work of children under sixteen were set aside by the Supreme Court, which declared them unconstitutional on the ground that it was a matter within the jurisdiction of the states. Though Congress proposed in 1924 to amend the Constitution so as to give

Workers of All Ages

Both the grown-ups and the little folks help in picking the cotton. Perhaps it is fun for the children, for a while at least, but it must get tiresome.

itself the power to pass child-labor laws, only a few states have ratified the proposal. However, most of the states have laws regulating the hours and conditions under which children may work.

Usually they forbid the regular employment of children under fourteen or sixteen years, and in many cases require that if the child leaves school before completing the regular period of attendance demanded by law, he must attend a continuation school for a specified number of hours a

week. The total number of hours which he may be employed is in some states as low as forty-four. There are certain industries or trades in which the employment of children is entirely forbidden.

When the United States Supreme Court said that the problem of child workers was for the states to solve, it was taken for granted that they would improve their laws. But since June, 1924, only fifteen states have done so in significant respects. One state, while it forbids children under thirteen to work in the factories, allows children of fourteen to work sixty hours a week, and often unlimited hours in other work. In five states only minor changes were made, and in the other twenty-eight no advance at all has resulted.

"Our states do not," the League of Women Voters says, "give full protection against the evils of child labor," and adds, "A federal law gives all children at least a minimum of protection and encourages the improvement of state laws."

Do you agree with this assertion? Can there be any possible argument to the contrary? Why have the states been slow in ratifying the proposed child labor amendment to the national Constitution? Can you think of any industry in which child labor is necessary? Under what conditions would you justify a child's going to work before he was graduated from high school? Should a school child work before or after school hours? Should a child have special home duties of his own? How early should a child have his own money? How should he get it? Are children to be pitied who do not have to work?

It is said that during the Civil War some New England children worked twelve to fifteen hours a day in cotton and silk mills. Was there any justification for this? Were they better off than the negro slaves? Would a slave owner work his slaves to death?

58. Problems of Working Conditions. — It goes without saying that the general result in anything we undertake is best when conditions are such that all can do their best. You remember our discussion of the conditions in which workers can do their best (§ 36). For one thing they must be happy. In the second place, they must be healthy — and they will not long be happy unless they are healthy.

It is essential, then, that the place where men and women work should be built and equipped so as to be as convenient, clean, and comfortable as possible. If a machine is used, it must be so protected that blades, belts, or gears will not get hold of the workers' clothing or bodies and cause injury. Dirt, smoke, and unpleasant odors must be reduced to the lowest possible amount. The worker must not be forced

A Home that Is a Factory

This mother has to make artificial flowers in her own home in order to provide for her children.

to toil after he is tired out. He should have opportunity for rest, for personal improvement, and for pleasure. His pay should be enough to enable him to live comfortably and to save for the rainy day which is likely to come.

Unless such conditions as these are maintained and enforced, the worker will not be contented. Unless the worker is contented he cannot produce the results which he otherwise would. Simply as a business proposition, therefore, and

looking at it solely from the employer's viewpoint, conditions of labor should be made as healthful and pleasant as possible.

Can you name any industries in which the workers could not keep themselves reasonably clean? Do unfavorable conditions of work justify higher wages? Is there any particular merit in eight hours as the length of the day's work? Is it any concern of the employer how the worker lives or spends his time when away from work? Is it any concern of the community?

Courtesy of H. J. Heinz Company

MACHINERY IN A FOOD FACTORY

So much of the work of canning is done by machinery that very little of the material has to be handled by the workers. There is little danger of a worker's being injured at this task.

We have talked about the conservation of natural resources and have seen the folly of neglecting it. Surely it is even more criminal and foolish to neglect to conserve human resources; yet attention to the needs of workers, that they may be kept in good health and safe from accident, is just as recent as conservation applied to land and forests.

It is true that some industries, as now conducted, seemingly must be dangerous to a certain extent. A powder mill or munition factory cannot offer personal security to those employed there. The railroad worker is constantly in danger of accident. A laborer in a mine or quarry or in a steel mill meets risks and chances for injury more than those employed in most occupations.

Courtesy of United States Bureau of Mines

A Safety Device for Miners

An electric lamp is not likely to cause an explosion as an oil lamp might. Do you know any other safety devices that miners use? Is coal mining inevitably dangerous?

Yet there are not so many such conditions as were once thought. Important processes have been discovered which make the risks and dangers much less than formerly. The safety lamp has saved the lives of thousands of miners, and the use of poisonous gases in chemical works has been made much less risky by the discoveries of scientists who have put themselves at the disposal of the business world.

When private employers have not had the foresight to improve conditions on their own initiative, laws have forced them to do so. The making of matches is an example of a trade where legislation enforced improved methods. Requiring factory managers to permit necessary light and air, and to keep the rooms in good condition for work, and abolishing the common towel and drinking cup, are examples of law-making which aims to conserve human resources by preventing the transmission of disease and by maintaining healthful conditions. "Safety first" campaigns have done much in making the individual worker more careful. Some workers to-day are better off at work than at home.

Why are powder mills seldom located near large cities? When and why, if ever, would you take a position in a munition factory?

Human services applied to production have taken many forms and have raised many problems. At first all workers did about the same things, but as time went on division of labor was developed step by step into the extreme specialization of to-day in which many classes of workers unite to produce the finished product. Another classification, by cross-section, makes some people employers, who accept responsibility, assume risk, and provide tools and materials, and makes many more employees, who supply mental or physical labor, and who are compensated for it by the employers.

All this production of wealth is for the purpose of promoting human welfare. We must see to it that this purpose is not thwarted by allowing human beings to be harmed while they are engaged in producing wealth. Numerous problems bearing on this fact are far from settled. The number of workers, too many or too few, the admission of foreign workers, unemployment, adjustment of workers so that they will have the jobs suited to them, work on the farms, the work of women, the work of children, and the conditions under which laborers have to work, are some questions which are not yet fully settled. But the world is making headway, and many workers, at least, are better off than ever before.

Special Studies

The Medieval Gilds
Employment Agencies
Resolved, That the Hand Worker Has Done More for the World than the Brain Worker

The Social and Industrial Importance of the Different Grades of Workers
Examples of the Division of Labor in the Industrial Life of Our Community
Immigrant Workers in Our Community
The Importance of the Immigrant in American Economic Life
Square Pegs in Round Holes — Causes and Remedies
Farm Labor Conditions in Our State
Resolved, That the Development of Modern Industry Is a Menace to the American Home
Resolved, That Every Child Should Be Required to Attend School until 18 Years of Age, unless He Has Received a High School Diploma or Its Equivalent
How Much and What Kind of Work Should Children Do?
The Effects of the Division of Labor
A Study of Working Conditions in an Industrial Plant
Women's Participation in Industry — Its Effect upon Them and upon Industry
What Our Schools Should Do in Training for One's Life Work
Resolved, That It is the Responsibility of the Government to Maintain Employment Agencies
Resolved, That Without Nineteenth and Twentieth Century Immigration the United States Would Not Have Become a First Rank Power

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CHAPTER VII

HOW PRODUCTION IS ORGANIZED

An idle man is of no more use than a dead man and takes up more room.

— Tuscan Proverb.

We have discussed some of the uses of land in modern industry. We have described the services of labor, as we see it in business enterprises, great or small, and have given special attention to some of the questions which face the workers. Now we are to take up that factor which is known as *organization* or *management*, and which deals with the way capital is employed in carrying on business. We are not going to discuss the work of the manager or entrepreneur, but the types of organizations that are made use of in producing goods. Three types of business unit appear commonly among industries to-day. If your community is not a very small one, you are likely to find represented there each of the three — the single proprietorship, the partnership, and the corporation.

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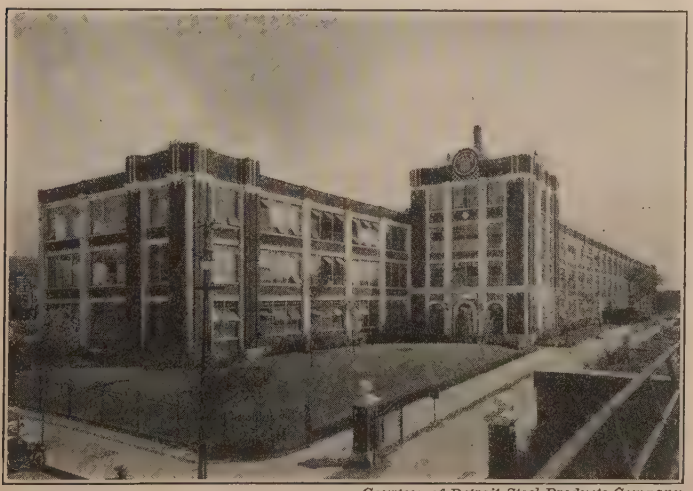
59. The Business Unit. — The social life of a community is made up of the activities of many groups or organizations. There may be hundreds or thousands of families with from two to six or more members in each. There may be a few "homes," orphanages, or asylums, with inmates numbering from a dozen to several hundred. There are schools, churches, clubs, lodges, and many other varieties of organizations. Each of these social units contributes something to the community life. It either renders some service which no other unit does or renders the same sort of service as some other unit but to a different group of people.

In the same way the world of industry and commerce is made up of the activities of business units. By a *business unit* we mean an individual, group, or organization which

has distinctive interests of its own and which contributes, in return for a profit, some desirable commodity or service. A business unit may consist of but one man operating a little store whose customers may not number more than a few dozen. It may, on the other hand, be a vast organization with a hundred thousand workers, and perhaps with branches scattered all over the United States and even throughout other countries.



Courtesy of Detroit Steel Products Company

AN EFFICIENTLY MANAGED BUSINESS ESTABLISHMENT

Well-arranged, affording healthful conditions of work, harmonious with its surroundings, with convenient facilities for transportation, this seems like a well-organized business unit.

You notice that a business unit is carried on for profit. We did not use that phrase about a social unit. However, by no means need that be considered a reflection on the business unit. If it cannot be carried on for profit for any prolonged period, it will have to pass out of existence or else be maintained by some beneficent individual in such a way as to become a charitable organization rather than a business unit. Even so unselfish an organization as a church

may have to depend upon such business units as a coal company or an electric light company for essential service or else be obliged to close its doors for a considerable part of the year.

60. Early Forms of Management. — The *single proprietorship* is that type of business management in which one man assumes all responsibilities, takes all risks, and, as his reward,

Courtesy of Kirby Müller

A Single Proprietor

Here is the proprietor of a men's clothing store in a small town. He has one clerk, but the entire responsibility for the business is in his own hands. How many stores like this do you think there will be fifty years hence?

receives all profits. This has always been the most common form of business management. Most of the grocery stores and fruit stands, as well as other kinds of establishments, not all of them small, are handled in this way.

There are some advantages in this form of management. The single proprietor does not have to take orders from any one — he is his own "boss." Since the business is his and since all the profits are his, he will do the best he can to

make the business profitable. On the other hand, the business may be a small one on account of lack of capital, and for that reason the field of work may be limited.

Another early form of management which is still in practice to-day is the *partnership*. A partnership is a business managed by two or more persons under a partnership agreement or contract. It is often not on a 50–50 basis. If Smith puts more capital into the business than his partner Jones, he gets more of the profits, depending on his share of the capital. Each shares the losses, if any, in a corresponding proportion. If Smith puts in three fourths of the capital but very little of his time, while Jones puts in all of his time but only one fourth of the capital, there will have to be a special arrangement between them as to the investment value of Jones's time.

When two or more people put their money together, there is more capital, a larger field of operation, and a larger range of experience to draw upon. Each partner is free to do the work which he can do best. But there are disadvantages in a partnership. There is usually no limited liability — each is liable to the full amount of his personal wealth for all the losses of the partnership. Partners may disagree over a matter of policy, and the partnership therefore breaks up. Death also dissolves a partnership, and makes it necessary for the surviving partner or partners to make new arrangements.

What does "Ltd." mean, when placed after a firm's name?

61. The Rise of Corporations. — The third type of business organization has come to be very common, especially in administering a large business. The growth of this form of management in recent years is remarkable. The industrial corporation is made up of a number of people (some states require five or more) who secure a charter from a state, and are authorized by it to undertake some line of business and to issue stock to a certain amount. The stock is sold in shares most often having a face value of $100 each.

Usually each stockholder may cast, for each share he owns, one vote in electing a board of directors who are responsible in general for the policies of the corporation, and who usually own a good part of the stock as well.[1] The directors elect a president, vice president, manager, and such other officers as may be needed. These officers actually administer the business of the corporation.

The corporation has the same standing at law as a single person. At the same time it is not subject to some of the inconveniences that attend individual management. The stockholders are responsible only for the amount that their stock is supposed to be worth. They usually have the right to sell their stock to any one who is willing to buy. If one stockholder dies or moves from his former residence, the corporation as an organization is not affected at all. It has a permanent quality. As a business man said recently, "Corporations never die; individuals may come and go, but our firm goes on forever." Of course if the corporation is losing money, its affairs will be wound up in short order. The sale of stock makes it possible to invest in the business thousands of dollars provided by people who would not personally take any part in the production of the commodities or services which the corporation aims to render. No wonder it is becoming extremely popular as a means of doing business.

Will incorporating a business make its profits greater? From which is it easier to withdraw your financial interests, a partnership or a corporation? How would you go about it in either case?

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[1] A corporation may issue two or more kinds of stock. *Preferred* stock receives dividends first, when profits are used for that purpose, but only up to a fixed figure, as 6 per cent or 7 per cent. *Common* stock gets no dividends until the preferred stock has been satisfied, but if the business is very profitable, it may get even larger dividends than preferred. A corporation may not distribute all its net income in the form of dividends. It may keep part of them as a *surplus* to use in meeting emergencies or in expanding the business. Sometimes only the holders of preferred stock have voting power; sometimes only the holders of common stock. What reasons might be offered for either policy? There may be corporations to operate churches, schools, and charities which do not issue stock at all.

But like most good things it has been abused. States have granted charters to corporations to do almost anything, and under cover of these some have engaged in questionable activities. The tendency now in the majority of states is to be much stricter in the requirements demanded when a group asks for a charter. However, there are ways of evasion. The states which are still lenient in this respect are often sought by people in other states who wish to get charters on easy terms. When such charters are secured the corporations have the right to do business in other states, because the United States Constitution declares that no state shall pass any law to impair the obligations of a contract, and the Supreme Court has said that the charter of a corporation is a contract.

It has been proposed that the federal government should require corporations to take out charters from it, if the business to be done will require any commerce between the states. Would such a law serve the public interest by making it easier to secure regulation and control of corporations? Would there be any negative arguments on the proposition?

Some of the elements that legally are an advantage to corporations are a disadvantage to the public. The small stockholder may have no influence upon the corporation's policy. The personal element in management is reduced to the lowest point. The majority of the stockholders may have nothing whatever to do with the actual operation of the concern. This lack of individual responsibility and the "absentee ownership" may permit or encourage selfish and hard-hearted policies in the name of the corporation which men doing business in their own names would hesitate to undertake.

"Promoters" of some business enterprises have sometimes got themselves into bad repute by their performances. They make it their business to induce people either to organize a corporation or to buy stocks or bonds issued by a corporation they are interested in. If they are successful in organizing a

new corporation, they will usually demand their returns in the form of a considerable amount of stock. This, of course, does not represent actual investment in the business; yet if interest is to be paid on it at the same rate as on other stock, it will become a fixed charge on the corporation which will reduce the returns to the other stockholders by that

Courtesy of Detroit Steel Products Company

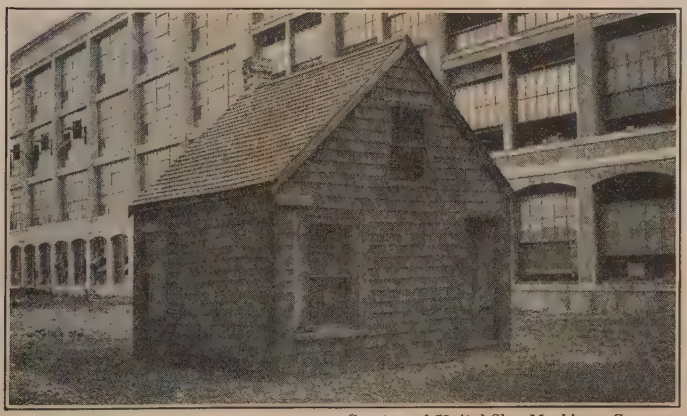
A Small-Scale Factory

These men make high-grade furniture, but do a large part of the work by hand.

much. Stock such as this, or of any other kind which does not represent actual investment in the business, is commonly called " watered stock." Especially in corporations dealing with railroads, gas and electric light companies, and the like, there has been a considerable amount of " high finance " which results in added costs to-day to those who are trying to make the business pay. This is sometimes, though not always, the reason why such concerns demand higher prices

and fares from the public than the services they give really cost.

Give examples from your own community, if possible, of the different types of business organization. Is a stockholder in a corporation a capitalist? Do firm names always signify the type of organization which is employed? Why did not Julius Rosenwald substitute his own name for that of Sears, Roebuck, and Company when he became the controlling spirit in the concern? A certain great corporation has 150,000 stockholders. Does that fact indicate that it is democratically governed? May such a corporation be dominated by one or two men?



Courtesy of United Shoe Machinery Company

A "Ten-footer" Shoe Factory

Shanties like this were once common as cobblers' shops. What a contrast between this and the great shoe factory behind it!

62. Large-Scale Production. — Another outstanding feature of modern business is *large-scale production*. The phrase almost defines itself. It means carrying on a business with an extensive organization using large numbers of men and large amounts of capital and putting out goods in great quantities. It is the increasing amount of capital available, and the constantly growing importance of it, that has so fostered large-scale production.

The advantages of large-scale production or mass production, as it is sometimes called, are many:

(1) In a large business, larger quantities of raw material can be purchased at once, and the product can be disposed of in large quantities. This results in a much reduced cost of production per unit.

(2) The division of labor and specialization of work can be carried out in great detail. The result of this is usually

Ewing Galloway

SCIENCE IN BUSINESS

Great institutions of learning coöperate with business men in trying to find the best way to do things. These particular men are in a laboratory of the Massachusetts Institute of Technology experimenting with coffee.

a higher quality of goods and a greater amount of them than otherwise.

(3) Improved machinery, and much of it, can be used when business is conducted on a large scale. New inventions are more readily made and put to use. Special experimental laboratories seeking to improve methods of production can be maintained which small concerns could not afford.

(4) The by-products of large-scale industries can be made

useful, and they add to the profits of the business. The paraffin of the Standard Oil Company, the various commodities sold by the meat-packing concerns, which are said to use every bit of the animal except the squeal, and the celluloid collars sold by the Du Pont Powder factory are by-products which one might never think of as such.

(5) Factories can be established in different places where some particular raw material is available or where there is

Courtesy of Goodyear Tire and Rubber Company

GREAT MODERN INDUSTRIAL PLANTS

Here are two of the plants of the Goodyear Tire and Rubber Company of Akron, Ohio, one of the largest manufacturers of rubber goods in the world.

some special advantage in the shipment of the finished product, and thus take advantage of regional division of labor. Henry Ford owns glass factories, forests, lumber mills, and mines, all advantageously located.

(6) Competition is likely to be less dangerous, since small-scale producers will not be able to meet on equal terms the products put out by the large-scale factory.

This large-scale production is seen in many kinds of industries. The United States Steel Corporation is perhaps

the most notable example of the "integration" of big business that we have to-day. It owns or controls iron ore in Minnesota, Tennessee, and Alabama, enormous boats on the Great Lakes, docks to load and unload the ore, and railroads to carry the ore to the factories — besides, of course, the great mills themselves. The Atlantic & Pacific grocery stores are another example of large-scale business. The big department store which advertises "Buying most, we buy for less; selling most, we sell for less" is an important factor in the business life of large cities.

Large-scale production may also bring with it evils:

(1) In the first place, the management may suffer if the expansion goes so far as to run into the law of diminishing returns (§ 41). Business may become too big to handle efficiently.

(2) The workers may be worse off, because of the possible harmful effects of the specialization which is required from them (§ 49).

(3) General business conditions will be harmed if the commercial power that comes from large-scale production is used to ruin competitors, and to obtain power in politics and other unfair advantages.

(4) From the public's standpoint, if large-scale production merely helps a few rich men to get more wealth without reducing the price of the product to those who use it, it is hard to see wherein the people are better off. There is little doubt, though, that the price of commodities produced in large-scale quantities is lower than it would probably be otherwise, even though it may not be placed as low as it could be and still give the producer a reasonable profit.

There may be a most efficient size of a business unit which would be neither the smallest nor the largest possible organization. Quite likely there is a practical limit to the size of milk-distributing agencies, to ice-cream parlors, or to factories making certain kinds of fancy dress goods, for instance. Local conditions, limited capital, the method of production,

the managing ability of the entrepreneur, and the doubtful possibility of building up an extensive trade in the article, are some of the elements that might enter into the matter.

"The tendency to-day is toward corporate organization, and displacement of the enterpriser by the hired expert." Why has this tendency arisen? What are its advantages or disadvantages? What industries are best adapted to large-scale production? Is farming suitable for it? Name some industries that are not. In what respects is a large school better or worse than a small school? Do the same principles apply to business organization? What differences in the methods of production and marketing are almost inevitable as between large scale and small scale production?

It has been said that large-scale production under the machine system makes possible: (1) variety, (2) luxury, (3) experiments, (4) over-production, (5) leisure time. To what extent do you agree with that statement? Why?

In § 33 we referred to competition as a fundamental economic principle. Does the development of large-scale production disprove the supposed benefits of competition? Is it true that competition is the spice of business?

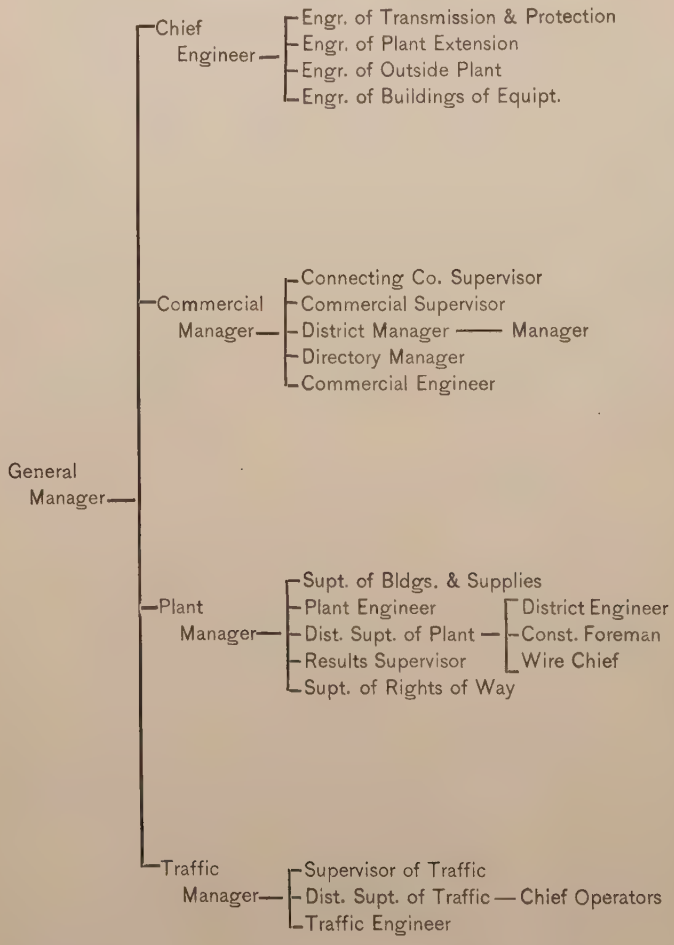
It is interesting to note how the workers in a big industry are organized. At the head of the whole business is a board of directors who elect one man as chairman, president, or general manager. The big plans of the industry are his. The details he leaves to those under him, but the responsibility for making the whole work move on together successfully belongs to no one else. He is the executive of the whole affair.

Under him are the managers or superintendents of different departments, who have the oversight of some special branch of work. They in turn have direct authority over the foremen and bosses who are in charge of some particular stage of production. These are the men who come directly in contact with the actual work of production. They must have an understanding of human nature and know how to get the best results from the labor under their direction.

Then come the great mass of workers in the industry. There are thousands of them perhaps in comparison with

TYPICAL AREA ORGANIZATION CHART

THE BELL TELEPHONE COMPANY OF PENNSYLVANIA



Courtesy of Bell Telephone Company of Pennsylvania

the dozens who are in the higher places; yet they are vital, for the work cannot be done without them. They supply the labor which actually puts the utilities into the product. Surely there is no reason for thinking of them in any other sense than as coworkers in the great industry along with their bosses and managers.

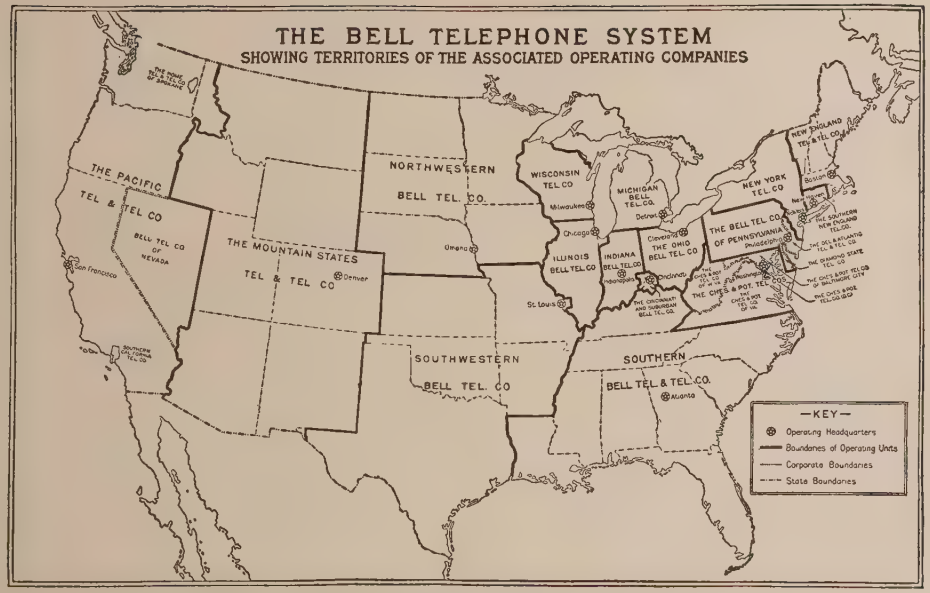
In the army a general has absolute authority. Should we find a similar condition in industry? Can industry be made democratic? Would a business be likely to go on equally as well if committees of workmen were in charge of the management of the business?

EMPLOYEES OF A GREAT INDUSTRY

	Telephone			Western Electric Company	Bell Telephone Laboratories
	Bell	Other Lines	Total U. S.		
Male Employees	117,000	21,000	138,000	33,800	3,100
Female Employees	211,000	45,000	256,000	10,800	900
Total Employees	328,000	66,000	394,000	44,600	4,000

The Western Electric Company is the manufacturing end, so to speak, of the Bell Telephone lines. It makes the telephones and other necessary equipment. The Laboratories are a notable example of the tendency of modern big business to spend much money for industrial research. In which of the varied activities of this industry would one find the men and the women, respectively, chiefly employed?

63. Monopolies and Combinations. — The progress of large-scale production is sure to cut down the number of small-scale producers. What is going to be the result? Will the rivalry between this smaller number of producers be keener and bitterer than it was before among the larger number, or will the rivalry be less? Probably the latter. The whole tendency in late years is toward combination, even among the "big fellows." Chrysler and Dodge automobiles each develop a big following and are close rivals — then suddenly are united under one control. General



THE ASSOCIATED COMPANIES FORMING THE BELL SYSTEM

Here is shown an example of the merging of smaller companies into a great system.

Motors manufactures many cars, not all of the same quality, it is true, but with fields overlapping considerably. Other companies are constantly doing the same. They endeavor to reach an agreement and put a stop to the struggles among themselves which are a constant source of worry and expense. If that is the case, large-scale production may have a tendency, if carried far enough, toward monopoly.

By *monopoly*, we mean a state of affairs where one person or corporation, or a combination, has such command over the production or sale of a commodity that it can regulate the price of that commodity. That is the real test. The volume of business any person or corporation does is only one criterion. This was the explanation given by the United States Steel Corporation for its belief that it is not a trust. It declared that it controlled only 45 per cent of the steel business of the country and therefore could not fix the price of steel without reference to the charges made by other steel producers, who, the corporation said, were competitors with it in a very real sense.

One form of business organization which is not now supposed to exist is the trust. We say it is not supposed to exist because laws have been passed declaring trusts illegal. Yet there have been attempted several notable trusts since the passage of the antitrust laws. Corporations now usually try to secure the same object by private agreement rather than by changing their business organization.

But what is a *trust?* [1] It is a combination of corporations which aims to secure a controlling position in some industry. The Standard Oil Company, formed in 1882, was the first great trust. "Gentlemen's agreements" or "pools" were sometimes arranged, by which several previously competing concerns agreed to work in harmony instead of fighting one another, and to divide up the business in their lines in ac-

[1] Do not confuse this use of the word with that implied in the term "trust company." Such an organization accepts the "trust" of looking after estates and handling other business for people.

cordance with a definitely fixed schedule. Such arrangement seldom lasted long, frequently because one or more of the "gentlemen" failed to abide by the program.

Then came the big new idea. There was to be a group of "trustees" selected who would administer the affairs of several companies which had been in competition with each other. A later scheme was to have a new corporation chartered for no other purpose than to hold stock in the corporations which were to be brought together. Such a special corporation was known as a "holding company."

JOHN D. ROCKEFELLER, SR.

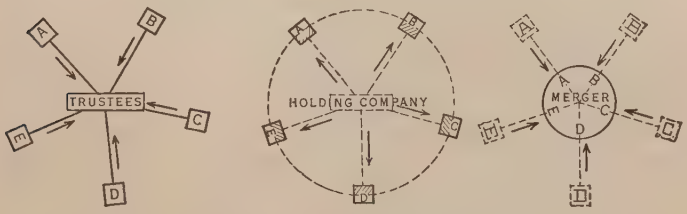
Founder of the Standard Oil Company; one of America's richest men; contributor to many worthy causes; at ninety years playing his daily game of golf.

The "interlocking directorate" was also invented. By this means the same men might be directors of several corporations, and of course would see to it that one corporation of which they were directors would do nothing to harm any others with which they were similarly connected. Our laws now forbid such a process, but they are difficult to enforce, for a man's private secretary or attorney may serve just as well as a man himself on the board of directors of a corporation.

Still another method is the "merger." This means that one or more corporations pass out of existence as separate bodies and unite with another corporation under its old name or under a new one. Sometimes the business done by each of the merging corporations is not of exactly the same sort.

Combinations such as those of Jones Brothers' Tea and Oneida County Creamery, or Kellogg Company and Kaffee Hag Corporation are examples of this.

Be sure that the terms "trust" and "corporation" do not mean the same to you. A corporation is a perfectly legal



TYPES OF INDUSTRIAL COMBINATION

A, B, C, D, and E represent separate corporations. The three figures represent different means of bringing about unified control. In a *trust* the separate corporations turn over the responsibility of determining their business policy to one *board of trustees*. The *holding company* is a separate corporation which controls a majority of the stock of the original corporations. In a *merger* the individual corporations lose their separate identity and are fused into one organization. Which of these methods is in your judgment most satisfactory? Does the holding company render any industrial service?

method for carrying on business. It may carry on business on a large scale and still not be a trust. A trust is an illegal combination of corporations.

64. Classes and Effects of Monopolies. — There are several kinds of monopolies. They may be extensive or limited and may arise from many different sources.

(1) A monopoly of *organization*, or a *capitalistic* monopoly, arises when several producers get together in order to control the sale and price of their commodity. The policy of some labor unions is of exactly the same kind. They demand the *closed shop*, in which none except members of the union can be employed. They can do this only by organizing all the workers into a union, and then they are likely to be in a position to tell the employer the price he must pay in order to get them to work.

(2) Another kind of monopoly which is also usually conducted on a large scale is the *government* monopoly. By this we mean an activity which is carried on entirely by public officers. In the United States, the post office is a government monopoly; in some European countries the sale of salt or tobacco; in practically all countries the coining of money. Usually the nature of the business is such that private operation is plainly not desirable or else the government expects to make a profit out of it.

(3) *Private legal* monopolies are granted to persons or firms who invent or compose something new or better than an existing article. They are usually in the form of patents, copyrights, or franchises.

There are two other kinds of monopolies which differ somewhat from those we have mentioned in that they are almost inevitable.

(4) For example, when some one possesses a title to the ground where a particular mineral spring is located, or when a railroad corporation gets possession of the one possible means of approach to a city or town, there is a monopoly of *situation*. In that case there would hardly be any competition. We sometimes refer to such situations as *natural* monopolies.

(5) When one person possesses special talent or education in some particular line, such as no one else in the same community possesses, he may be said to have a *personal* monopoly. A dentist in a small village, a country blacksmith or doctor, and the talent of a great artist are examples of this type of monopoly.

Economists sometimes refer to Nature as "niggardly" or "stingy" because she put diamonds in only a few places, such as South Africa, or anthracite coal only in Pennsylvania. Do you like the use of these two adjectives in this connection? If diamonds could be found everywhere, would anybody want them?

Monopoly does not have to worry about competitors, except to manage its affairs well enough so that there will

not be any. Certain types of monopoly can get all the advantages of large-scale production in addition to those coming from monopoly itself. We must notice, however, that producers like those mentioned as examples of personal monopoly may not have to do business on a large scale. There might conceivably be a monopoly in the manufacture of glass door-knobs, but we can hardly imagine it as becoming very important.

Courtesy of Vermont Marble Company

DOWN IN A MARBLE QUARRY

This picture shows a quarry 300 feet below the surface. Under what circumstances, if any, could this industry be a monopoly? Would there be any limitations upon its control of the marble business?

The monopolist, after all, is subject to limitations. (1) He may be held in restraint by the law of diminishing returns. (2) If a monopolist charges too much for his product, people will either refuse to use it or use something else in its place. If postage on a letter were two dollars, for example, few people would send letters, but telegraphs and telephones would be still busier than they are. (3) Again, if a monopolist undertakes to charge an extremely unreasonable price, he is likely to encourage the very competition he wishes to avoid. If a competitor starts business and undersells him, the original monopoly advantage would disappear. (4) If a monopolist put the price of his product outrageously high, even if he were dealing with some necessity like flour or sugar, the people would be

likely to demand that their government interfere and break his hold upon their life. The possibilities of substitution, of competition, and of government interference, all act as checks and tend to make the monopolist cautious. (For a fuller discussion of this topic, see Section 109.)

There is no doubt that monopolies are not popular, and it is not surprising. Yet there are times when monopolies may be distinctly helpful to the people. If the monopolist gives the public some of the advantages in the way of low cost of production and the saving that comes from absence of competition, most of the people may be benefited. In the case of agencies such as a telephone or street railway, it is often a matter of distinct convenience to have the entire service in a community under one management. Six street-car companies in one city, without transfer privilege from one to another, would be an unendurable nuisance. Even two telephone lines in a large city may cause considerable inconvenience. Experience shows that it is well for the restraining hand or the mailed fist of the government to be ready to deal promptly with one who abuses monopoly power or privilege, for very few companies try to secure a monopoly in order to save the public money.

Under what conditions would you consent to the existence of a monopoly in the sale of flour or milk? telegraph services? the work of barbers and physicians?

65. Business Efficiency. — Efficiency is a word so often spoken and written that it has come to be almost a by-word. It means just this — doing the best work possible with the least expenditure of time, money, and labor. The more efficiently a business is conducted, the more prosperous and profitable it is to all concerned.

This requires, in the first place, wise planning. The proprietor or manager must be able to judge how great the demand will be for his product and must be ready to meet that demand as nearly as possible. If he is a manufacturer, he

must be careful not to put on the market a greater supply of the commodity than there is a sale for. At the same time he must try to have always available enough of the raw material to keep his business going. If he is a grocer or other kind of retail dealer, he must not load his shelves with

Courtesy of Roanoke Chamber of Commerce

A Business That Requires Sound Management

Think of the variety of goods that this department store at Roanoke, Virginia, keeps in stock. How easy it would be for even a slight mistake in judgment to mean a loss of hundreds of dollars.

things he cannot sell at all or can dispose of only after a long period. On the other hand, if people cannot get the things they want at his store, they will patronize somebody else. Either way there is a big chance of guessing wrong. Indeed, the successful business manager is the one who does not have to *guess* much, but because he has foresight, common sense, and accurate information can *know* what is best to do.

Try to find statistics of the number of men who failed in business in the United States in some year. If you are familiar with any who did not make a success in some business enterprise, try to determine why they failed.

A good manager must also know how to get the best work out of his employees. Efficient management is a big part of

Ewing Galloway

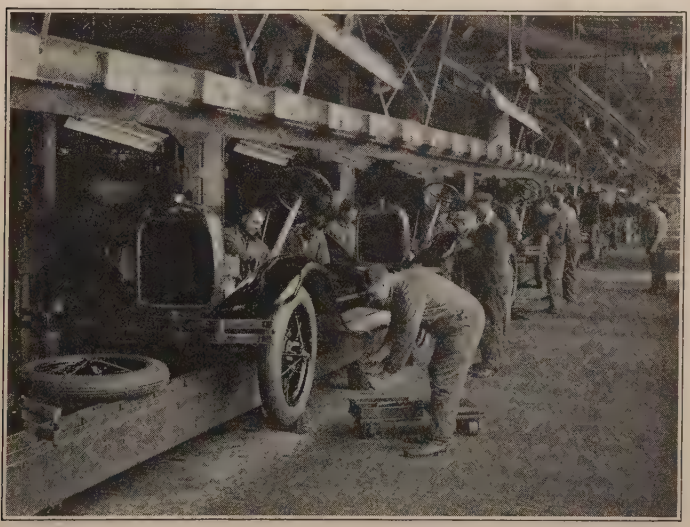
A Big Modern Office

Here are some of the high officials of the San Francisco office of a well-known life insurance company, with their assistants. Here is shown in an attractive setting an important type of modern business activity carried on efficiently.

the story, but inefficient labor can wreck any enterprise unless it can be corrected and improved. Workers should be in reasonably good health; they should work within fairly pleasant surroundings. Through sensible division of labor each worker should be employed at a job for which he has some natural talent or liking. With the right spirit at the start, the task of making good workmen out of green material

is much easier. But not even enthusiasm can take the place of knowing how a thing should be done. Teamwork between the thinking worker and the working thinker, as they have been termed, is what counts now.

How far is the employer responsible for the interest an employee has in his work? The statement has been made that American labor



Courtesy of Ford Motor Company

PUTTING FORDS TOGETHER

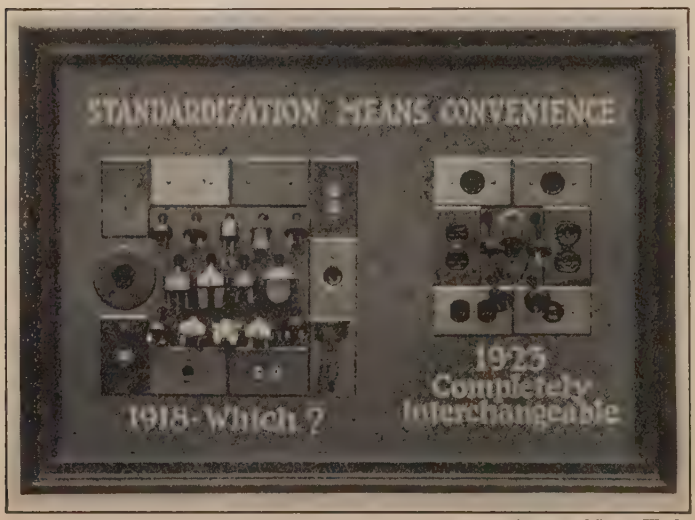
Scientific management is carried out very effectively in the arrangement of the process of assembling a Ford.

is the most efficient in the world. Why do you think this is or is not true?

Sometimes in the sale of a business establishment "good will" is mentioned as one of the items transferred. What does this mean? Can it be transferred? Is it worth counting? Does it exist elsewhere than in business?

Scientific management concerns both the manager and the laborer in production. The advocates of this idea believe that there is some one best way to do almost everything, whether it is pushing a wheelbarrow, laying bricks, or keeping

a record in an office. They assert that if this best way can be found, more work can be done in less time and with less wear and tear on the worker than if he goes at a thing haphazardly. This idea appeals to many employers and they frequently engage men called efficiency experts to discover ways by which their work can be done in less time, with fewer motions, and with less effort on the part of the worker.



Courtesy of National Lamp Works

THE ADVANTAGES OF STANDARDIZATION

The worker sometimes does not take kindly to the idea. An increase of production in the industry does not always mean an increase of wages for him. He may suspect that the employer is simply trying to get more work out of him, and may fear that the new methods will require fewer men, and that he may lose his job.

Does the average business man think more of profits or of social welfare? If he ignores social interests, will he suffer for it?

One notable improvement in business methods in recent years is the *standardization* of commonly used commodities

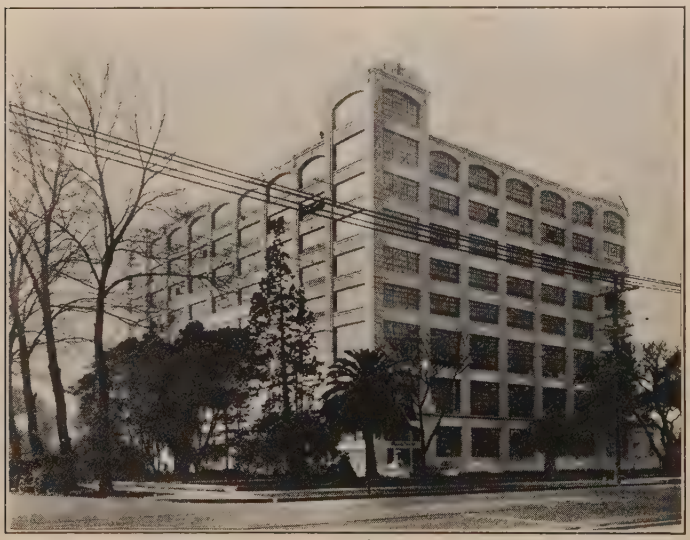
or parts of machines. Formerly every producer of milk bottles, shovels, nuts and bolts, construction materials, and countless other things, put out his product in whatever form was suggested by his own whim or that of some extensive buyer. The result might be dozens of sizes and shapes of these articles, even though they had only certain specific uses.

A great saving in both production and use would be achieved by having a sufficient number of forms and sizes produced to meet all reasonable needs, and then expecting building contractors, factory managers, and other consumers to conform to these standardized items. Paving bricks, for instance, have been reduced from 66 styles and forms to 5, milk bottles from 49 to 4, bed blankets from 78 to 12, shovels, spades, and scoops from 5136 to 2178. In mill equipment, building supplies, and the like, the reduction in forms and styles of commodities used has been over 50 per cent.

Show clearly how this standardization would reduce the expense of business operations. Is the same principle true in school management? Can it be carried too far?

To keep industrial processes and business policies at the highest point of efficiency calls frequently for information that is more complete and definite than would be picked up casually in the ordinary operations of business. To secure such information by special research and by collecting statistics, and for other helpful purposes, there have been formed in numerous fields of activity associations often called "institutes." They are supported by contributions from corporations engaged in a particular line of industry, and persons of wide reputation or technical experience are engaged to carry on the studies or other activities that are desired. Sometimes very important questions of policy are taken up through such agencies. The American Petroleum Institute, for instance, considered the working out of an agreement for restricting the total output of petroleum in the entire country.

66. From Producer to Consumer. — There are few industries left where there is direct contact between producer and consumer. Perhaps the mail-order houses bring about this contact as often as any existing agency, but they do not manufacture anywhere nearly all that they sell. Farmers who market their goods in cities come into direct contact with



Courtesy of Detroit Steel Products Company

A New Development of a Mail Order House

This is the Oakland, California, branch of Montgomery Ward and Co. Some of the great mail order houses are not only establishing great branches in different sections of the country but opening stores for local retail trade.

consumers. There are clothing factories which have their own stores all over the country. They make the suits and sell them to the consumer through their own agents. Then there are companies that have salesmen who go from house to house and sell their goods. But the great bulk of all trade is done with the aid of middlemen.

A *middleman* is any one who handles goods between the original producer and the final consumer. All small grocers,

for instance, are middlemen. Large corporations may produce goods and sell them to wholesale dealers, who may dispose of them to jobbers, who send out "runners" who sell on commission to the grocers, who then retail them to consumers. Complicated? Indeed it seems a roundabout process and uneconomical, for the "ultimate consumer" has to pay for the middleman's services. Yet there would be no middleman if he did not render some service.

The middleman takes care of all transportation—he makes the goods available for use (possession utility). When he receives the goods, he sorts them and sets them out attractively. He is constantly offering new commodities for sale. The middleman gets you what you want, as much as you want, and when you want it. Of course, he expects to be paid for all this.

Ewing Galloway

CANNED PEACHES IN A WAREHOUSE

This picture shows one phase of a modern industry. Would you judge that a middleman could be of service in this industry?

Middlemen have become more numerous as a result of corporations and large-scale production. How could W. K. Kellogg or H. J. Heinz take time to sell single individuals a box of corn flakes or a jar of pickles? It would cost much more to maintain the necessary retail stores all over the country than to let the wholesale and retail grocers look after the consumer's wants.

No doubt an unnecessarily complicated system of selling

has been built up in some cases. One investigation found five stages of middlemen between the shoe manufacturer and the wearer, each one collecting its toll for doing little or nothing. That sort of thing is ridiculous. Industry usually can simplify its selling system and make it more efficient than that. The consumer is a willing horse, but he will balk if you overload him beyond reason.

Ewing Galloway

CHICAGO'S COMMISSION HOUSE DISTRICT

Millions of dollars' worth of foodstuffs are handled here every day. Just what service is rendered by this street?

67. Advertising. — Modern business spends millions every year for advertising. Its forms are countless. You ride on a railroad train from one station to another and you are confronted almost everywhere you look with billboards telling you of some hotel or cigarette, fly screen or patent medicine. " 57 " stares at you from the pages of a magazine or glares in electric brilliancy from the top of a high building. Retail dealers make attractive displays, give samples, pass out cir-

culars. Newspapers and magazines are crowded with advertisements. They could not exist without them. Firms mail letters and circulars containing advertisements for their products. Theaters and newspapers sponsor contests, picnics, and parades. We turn on the radio, and a voice informs us, "This program comes to you through the courtesy of the Wearlong Shoe Company, makers of superlative footwear.

Wide World Photos

ADVERTISING ON BROADWAY

Even New York's famous street is adorned or defaced by advertising. Some find the "Great White Way" very attractive at night.

Their slogan is: 'We've fitted feet for forty years.'" There are countless other methods and many novel and original schemes. Whole companies are formed which make advertising their sole business.

What causes this great expenditure of money? One reason is to let people know that there is such a thing as that which is being advertised. Another is to convince them of its merits, real or pretended. Sometimes, too, the advertise-

ment carries helpful propaganda or special arguments. For instance, a series of advertisements were published by a Chicago meat-packing firm in the form of a letter addressed to "Dear folks" and signed by a magazine writer. The object of the article was not so much to tell the public that this firm sold meat products as to make them believe it was so efficiently and honorably conducted that such a firm

Wide World Photos

A New Kind of Advertising

Roadside advertising may be artistic rather than offensive to the eye, as this picture shows. Numerous models of this kind may be seen along the highways of Southern California.

would not be guilty of charging unreasonable prices for its meats.

Does it "pay to advertise"? Probably it would not be safe for one competitor to quit advertising as long as rival companies continued to do so. No doubt honest advertising is a help both to the one who has something to sell and to the one who learns where he can buy something he wants. But who pays for it? All the expense that is put into advertising comes out of the people. Whatever the cost of the advertis-

ing, and the cost is sometimes great, this is added to the price which would otherwise be charged for the product. It could not well be otherwise, however. The chief benefit to the consumer is that through advertising he makes the acquaintance of desirable goods which otherwise he might never have known of.

There could be much money saved by coöperation among business men along this line. Think of all the money spent for advertising brands of cigarettes that do not differ by as much as a cat's whisker. Goods of real quality virtually advertise themselves. At the same time the man who does not advertise is likely to be hopelessly left behind in the race for business. However, the advertiser needs to be careful how and where he spends his money if it is to bring in the best returns.

Make a list of ten familiar advertisements. Which of these are good and which ineffective as far as making any impression on you is concerned? Can farmers advertise successfully? Is advertising beneficial to anybody but the advertiser? Advertising managers sometimes argue that by increasing the output of an article they give employment to a greater number of workers, and that the greater output decreases the cost of production or at least pays for the advertising. Does this logic seem reasonable to you? May advertising be socially harmful?

68. Industrial Preparedness. — Preparedness is another word which was worked to death during the World War. The trouble is that we think of a thing like this when it is too late and then talk about it too much. Here we have in mind not the preparedness of any army or navy, but preparedness to meet business difficulties and changes.

Every business man should know that public interest is proverbially fickle. The fad of to-day is forgotten to-morrow. Before a merchant stocks up with goods that sell well to-day, he should be sure that the people are going to continue to want them next month. A clothing dealer who advertises straw hats as a specialty in January would be looked upon as crazy, but his mistake is in reality no worse than many

a dealer makes who tries to sell to people something that they do not want and cannot be induced to want.

A business manager must be constantly awake to the possibility of change in carrying on the operation of his industry. Inventions have revolutionized the ways of doing things. The linotype made hand typesetting a back number in the

Keystone View Company

SMOKING HAMS IN THE MODERN WAY

See the smoke rising through the steel-grated floor. If you ever saw an old-fashioned smoke-house, you will appreciate the contrast. What would happen to this company if it tried to go back to the old method?

progressive newspaper office. One must always look ahead and see what changes are proposed or threatened in the line of production in which he is engaged.

The merchant will do well also to be prepared with more than one source of supply or one field of sale for the commodities which he sells. Something may happen to interfere with that source upon which he commonly depends. Many of our business men found themselves in serious difficulty

when the war suddenly broke out. A correspondence school had attempted to build up a big business in Europe. The war ruined it and for the time being the company had to cease paying any returns whatever on a considerable portion of its stock.

Preparedness against losses is perhaps the most necessary and is possibly the kind most familiar to the business man.

Courtesy of Bush Terminal Company

A New Type of Service to the Business Man

All sorts of facilities for receiving, storing, and shipping goods are provided at this great establishment in Brooklyn. The small-scale business man finds the service as useful as the larger-scale operator, for he can pay for just as much space as he cares to use.

Insurance of workingmen against accidents or sickness has taken the form now in many states of Employer's Liability laws, in which the employer is responsible either for insuring his men in a company which makes that its business, or providing a special fund which can be used in that way. A business man may insure his property against fire in a fire insurance company or set aside a special sinking fund to meet such emergencies. Fire insurance has come to be an enormous business. In the year 1927 about $300,000,000 was

paid out by insurance companies in the United States for losses either by fire or at sea. During the same period these same companies received in premiums $695,000,000.

Insurance against almost anything imaginable can be procured from companies who are willing to take all kinds of unusual risks. Concert pianists carry thousands of dollars of insurance on their hands. Insurance policies against burglaries, tornadoes, earthquakes, rain, hail, and drought are other types which are known to people in various sections of the country.[1]

Mention some businesses which it would be difficult to adapt to changed conditions. Do we have more fires or less because of the prevalence of fire insurance? Is insurance a form of gambling in which the owner bets $15 against $3000 that his property will burn down? Why do business men pay to fire insurance companies every year more than twice as much as they receive from the companies in payment of losses?

As a phase of preparedness for winning the World War our government developed enormous agencies to bring about coöperation among the business interests of the country. It advised them what kind of product they should make, what prices they should charge, what they should pay for raw material or for labor, and in many other ways endeavored to get all American business to work hand in hand for the common good. It is true, of course, that there was a great need and that the country found itself in an emergency which must be met at once. But should not such assistance be available at all times, in peace or war?

Our national Department of Commerce has made an admirable beginning in such service. It advises business men as to new conditions developed in different countries or in different parts of our own country, suggests new lines of activity that might be profitably undertaken, and aids in numerous ways

[1] The most famous of all insurance organizations is the British association known as Lloyd's. Their specialty has been insurance for ships and their cargoes. H. N. Casson says: "If you ask why Britannia rules the waves, the answer is — 'Lloyd's.'"

to promote business efficiency. This sort of thing cannot fail to make profits larger and more secure for the business man and reduce the cost of living to the helpless consumer.

This vast enterprise of production takes many forms. Originally its organization in business units was simple, whether under a single proprietorship or a partnership. The corporation has all the rights at law of a single proprietor and many additional advantages. Its use has become very common. Though a corporation may do business on a small scale, its form is peculiarly adapted to that large-scale business which is so striking a feature of our present industrial life. So advantageous are large-scale methods that combinations of small concerns into a large one, and of large ones into still larger, are constantly taking place. Sometimes this leads to the establishment of monopolies, though not all monopolies are large. The larger the business, the less possible is it, in many cases, for producer and consumer to deal directly with each other. So a crop of middlemen have sprung up, to handle the intervening business. To attract the possible buyer's attention, myriad forms of advertising appear. From all this varied activity much good and some harm has come to the consumer; one wonders whether the individual worker and the individual consumer are going to become mere units or machines in a dehumanized mass-production.

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Advertising — Successful and Unsuccessful
Scientific Management
Standardization as a Phase of Efficiency
The Laws of Our State with Reference to Corporations
The Office and Factory Organization of a Local Corporation
Monopolies Which Benefit the People
Monopolies Which Menace Public Welfare
Recent Notable Industrial Mergers
The Efficiency Expert and What He Does
Can Middlemen Be Eliminated?
Risks in American Farming
Risks in American Manufacturing
Risks in American Transportation
The Chain Store

The History of 5-&-10-Cent Stores
Resolved, That Whenever Possible One Should Buy from His Neighborhood Store-Keepers
The Growth of Mail Order Business

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CHAPTER VIII

PRODUCTS AND PLACES

His capital is continually going from him in one shape and returning to him in another.

— Adam Smith.

Perhaps we can obtain a clearer idea of the marvelous scope of some of our present-day industrial operations if we take a few of the common commodities that every one uses in some form or other and learn some facts about their production. We may in this way discover how many different steps are required in getting the product ready for use, and thus learn what *production* really includes. Some of the necessary conditions and extraordinary results of large-scale production ought also to stand out more clearly. Let us also consider some of the advantages of the exchange of products between one place and another and the extent to which such trade is carried on.

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69. Wheat. — If any one food crop were to be completely removed from the use of man, probably the one which he would miss most would be wheat. It can be carried almost anywhere, preserved for a long period, and when made into bread, or some of its various forms ready to eat, it is consumed with relish by people all over the world.

The regions which are most suitable to wheat growing are in the northern part of the temperate zone. The Middle West, southern Canada, Australia, Russia, and Argentina are among the greatest wheat-producing countries. In the United States, the states which usually rank highest are Minnesota, North Dakota, and Kansas. Cold winters such as occur in these states do not harm the seeds if there is sufficient fall of snow to protect the ground.

In the cultivation of wheat a great many changes have taken place. The earliest wheat raising was accomplished simply by digging the surface of the ground with sticks and then throwing out the seeds by hand. It was harvested by a hand sickle and threshed by use of the flail or by having horses walk over it. After a while plows were used, and

Ewing Galloway

How It Is Still Done in Some Places

This primitive method of harvesting wheat as these Italian women are doing it is the only possible one on some small farms, where expensive machines could not be afforded.

threshing machines were finally invented. To-day on the great western farms, tractor plows and harrows covering yards of ground at once and enormous machines for cutting, threshing, and binding are seen instead of man-power or horse-power. To operate these machines, steam or gasoline is used.

Not only in raising the wheat itself but in the industries depending upon it, we see the industrial progress connected

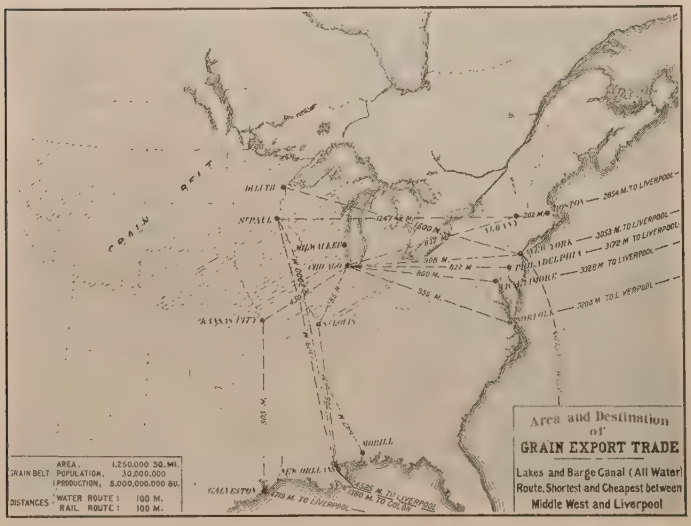
with this important grain. Before the wheat can be used for food, it has to be ground. Grinding by hand between two stones was the simplest and earliest method. Now great mills using heavy rollers crush the grain into flour. Milling is a distinct industry in itself. Its modern industrial importance dates chiefly from the expansion of the great wheat farms of the West. Improvement in the milling process now has reached such a point that the bran and middlings that were once thrown away or used only for cattle are turned into a fine quality of flour.

Courtesy of Pillsbury-Washburn Mills

THE LARGEST FLOUR MILL IN THE WORLD, MINNEAPOLIS, MINNESOTA

The transportation of wheat is itself a factor of importance in the modern industrial world. It has made necessary the construction of great elevators in which the grain may be stored after being received from the farmers. These elevators sometimes hold from 2,000,000 to 3,000,000 bushels. So important has this matter of storage become that the state of North Dakota undertook to establish state-owned elevators to receive the wheat from its wide-reaching farms. On the Great Lakes are found steamers constructed for no other purpose than to carry the grain from the state where it is grown to a place near the eastern market.

Many industries not necessarily connected with agriculture have received considerable benefit from the expansion of the growing of wheat. Barrel makers, lumbermen, and machine shops have all felt a greater demand because of some feature connected with the storage or transportation of wheat or flour. Chicago has a wheat exchange at which wheat is bought and sold even before it has been harvested.



Wheat has become a world product. Its price varies very little whether it is in London, Chicago, or Buenos Aires. Yet things happening in India might even affect the price of wheat in Minneapolis.

"The discovery of a new wheat-producing area is really more important to the world than the discovery of gold." Do you believe this statement? Why or why not? Why did the use of substitutes for wheat seem rather burdensome to some people during the War? Were the people really harmed by using substitutes? How many distinct agents had a part in providing the loaf of bread which is served at your table? Make a list of the different uses of land and

types of laborers and the forms of capital employed in making wheat available for your personal use.

70. Meat. — Millions of people eat meat once or twice a day. Any article of food which has a part in the bill of fare of so many individuals will be looked upon by them as a necessity. As a matter of fact, though, it is a luxury, if by luxury we mean something that we can get along without. The Japanese and Chinese eat very little meat, and every nation has its vegetarians.

Part of Chicago's Stockyards

Here is where the cattle wait before going to their fate.

Not more than half a century ago every village of any size had its own butcher who sold meat from animals which he himself killed, and which were brought to him by the farmers living in the neighborhood. To-day in the same small communities the chances are at least 95 to 1 that the meat sold in the markets comes from miles away, perhaps several hundred miles. The business has centered in one section of the country.

Chicago has become one of the greatest centers in the world for the packing and selling of meat either fresh or canned. Kansas City, Omaha, and St. Joseph are other communities which depend for their prosperity very largely upon the business. The packing business has passed into the hands of a very few men. The names of Armour, Swift, Morris, and Wilson are known not only throughout the United States

but in distant parts of the world. What the men who control these great corporations say becomes law as far as the meat business is concerned.

The cattle that are killed to supply this meat are raised by the thousands on the great plains of Texas, Kansas, Nebraska, and other states. Other parts of the world which are also

On a Western Cattle Ranch

The men are trying to throw a cow to the ground. Vast stretches of land such as we see in this picture furnish food for many thousands of cattle.

particularly fitted by nature for cattle raising are Argentina, India, and some parts of Russia and Australia. Regions which are too dry to raise the staple crops of agriculture can, in many cases, furnish sufficient pasturage for herds upon herds of cattle.

If cattle are raised in the wide plains of the Middle West and slaughtered or canned in the cities of the Mississippi valley, how can the people of New York or Maine make use of them on their tables? The answer to that question brings to light one of the unforeseen results of the expansion of the

meat business. For a long time cattle have been carried by train hundreds of miles to the centers where they are slaughtered, but what then becomes of the meat? Beginning with 1868, refrigerator cars were used. Meat is thus preserved long enough for the distant consumer to use it. These refrigerator cars marked the beginning of a new era in transportation. Fresh meat may even be shipped abroad, although cattle are still carried across the Atlantic because some European consumers prefer to eat the meat of animals killed in their own country.

In no other business has the division of labor been carried to more minute detail than in this. When the animals from the stock yards enter the place of slaughter, every man employed there has one thing to do. So perfect is the system of handling cattle, sheep, and hogs that in a time almost incredibly brief the carcasses have been made ready for the market.

Nowhere else, too, is it likely that by-products are so completely made use of. Not a thing is wasted. Out of bones come buttons and knife handles. Out of hoofs come glue and gelatine. Out of every part of the animal, in fact, some profitable use is derived, even if it is only for the making of fertilizer.

In the same way as was suggested with wheat, list the activities of different factors of production that have to do with the meat business. There is a considerable demand for strict regulation and control by the government of the meat-packing business. Why do we find this demand stronger in the case of meat than of other commodities like iron and copper and other metals?

In speaking of cattle, one might add also a word or two on the other services which cattle render to human beings — meaning the supply of milk and other dairy products. We have seen in recent years a transformation in the supply of milk in the largest cities, similar to that which we have observed in the meat-packing business. In the largest cities to-day very few families are supplied by farmers who bring

into the city milk which they themselves get from their own cows. Great companies have been formed which bring the milk from distances of two hundred to four hundred miles. Some of New York's milk comes from the neighborhood of the St. Lawrence; some of Boston's from far up in New Hampshire and Vermont. The great dairy regions of Wisconsin supply cities several hundred miles away.

Milk for a Great City

This shows one step in the process of bringing milk from the country districts of New England to Boston. Farmers sell the milk to contractors who bring it to the city in 40-quart cans, sometimes on special trains. In this picture a milk car is being unloaded.

The control of the supply of milk and butter has made it possible for a comparatively few persons to have a great influence upon the price paid by the people. Elgin, Illinois, is the center of the butter-making industry. It has been asserted that a few men in Elgin can fix the price of butter in any part of the United States.

71. Coal. — The well-being of most of the American people to-day — and of many other people too — depends

upon coal. A large proportion of the transportation furnished by the railroads absolutely could not take place if our coal supply were cut off. Besides, a vast number of factories in all countries are operated by power which is itself generated by the use of coal or which employ coal directly in furnishing the heat necessary to work upon raw materials. Our industrial welfare to-day is absolutely bound up with coal. Millions of people depend upon it to keep their homes warm. Natural gas, wood, and oil are possible substitutes, but these are to-day available only to limited numbers of our people.

There are several varieties of coal. The anthracite or hard coal, which burns with great heat and almost no smoke, is mined in this country chiefly in eastern Pennsylvania. Bituminous coal, often called soft coal, is found in many parts of the United States, the western Pennsylvania field being very extensive. Illinois, West Virginia, Ohio, Kentucky, and Alabama also furnish much. There is a less valuable formation, known as lignite, which is capable of considerable use, in spite of the fact that it breaks apart easily when exposed to air.

Some coal contains a considerable amount of sulphur which has to be removed before it can be used in smelting iron and other industrial processes. On this account the removal of this sulphur, transforming coal into coke, has come to be an important activity, especially in southwestern Pennsylvania. The presence of coal often determines the nature of the industrial progress of large portions of any nation. Some of the great cities of the United States, of Great Britain, and of Germany came into being because they were near the coal fields of those countries.

One would think a substance of such vital necessity to the world's industry would be handled with extreme care and saved as far as possible from waste. Unfortunately this has not been true. Mining has sometimes amounted to nothing more than taking that which was comparatively easy to get and leaving the rest in such condition that its

removal would be attended with enormous expense. The protection of the laborers who dig this substance out of the earth has also been in the past a disgrace. It has been estimated that for every 18,000 tons of coal mined in the United States one man is killed.

Besides, there has been great waste in making use of energy contained in the coal. In plants where coal is used to furnish

Keystone View Company

A Phase of Coal Mining

In this case an electric " donkey engine " is being used to drag cars of coal out of the mine.

power, not more than $\frac{1}{300}$ to $\frac{1}{10}$ of the energy of the coal has been turned to account. The waste of valuable gases in the smoke from coke ovens and factories is another economic loss which ought to be avoided. It is possible that the development of the water power of the United States may help to relieve some of the demand for coal. But even making allowance for this possible relief, it is plain that nowhere is there a field where conservation is more necessary than in handling this extremely important natural product.

Are there any substitutes for coal which could be made use of on a wide scale? Coal has been referred to as "buried sunshine" or "black diamonds." Can you explain either allusion? A very considerable amount of coal is probably to be found in China and Alaska. Why have not these fields been developed? Has your community given any attention to the more economical use of coal by factories, homes, and institutions?

72. Iron. — You may be tempted to think that there are a number of things without which the world would go to ruin. Certainly, if all our iron were taken from us suddenly, we should be put back four thousand years in civilization. People have known of the use of iron even longer than that, but only in the last hundred years have come to depend upon it to the extent that they do now. Everything from pins to skyscrapers may be either fully or partly made of iron. We may quote a paragraph which emphasizes this fact:

"Machines produce goods and machines are mostly iron. What runs the machines? Engines. What keeps engines going? Coal that has been brought from the earth to the furnace largely with the help of iron. Iron serves us in our food. Our bread and meats are brought to us by the iron horse from the grain fields and pastures of the West. The iron horse brings us oranges from Florida and California. Iron machines prepare canned foods and make the cans."

Great Britain, Germany, France, Belgium, Sweden, and Russia all have considerable deposits of iron ore, but just now the United States produces far more than any other country in the world. There was a time when Pennsylvania led in the mining of iron, but later great sources of supply were found in northern Minnesota and Michigan and in the southern district which includes Alabama and eastern Tennessee.

Before iron can be used industrially, it must be put into suitable forms. This work is done by heating and melting ore by means of charcoal, coke, or anthracite coal. The diminishing supply of wood has made charcoal impracticable and therefore the modern furnace makes use entirely of coke.

The material that is separated from the iron by the furnace is known as slag. The crude iron that comes from the furnaces is called pig iron or if it is melted and cast, cast iron. Wrought iron, which is almost entirely pure, is another form, and steel is a refined form extremely hard and resilient and capable of resisting tremendous strain.

A Steel Mill at Night

Scenes like this not only suggest power but have a strange beauty.

One extraordinary result of the working of iron is seen in the building up of great cities which have come into being largely because of its manufacture. The community in the United States which is most often connected in our minds with iron and steel is Pittsburgh. The Pittsburgh district is the greatest center of smelting and steel making in the North, and Birmingham in the South. Cleveland and Buffalo are other cities whose growth is largely due to the various activities resulting from iron and steel. Gary, Indiana, in

the Chicago district, is a town which was built out of nothing by the United States Steel Corporation. Perhaps no other commodity has built cities in the same way that steel has.

Among these cities Birmingham is the only one located in a district which produces both iron and coal. Pittsburgh now gets most of its ore from the Lake Superior region, brought to the shores of Lake Erie in boats constructed for that particular purpose and then carried by rail to the mills. It is a question of either carrying coal to the ore or the ore to the coal, and since Pittsburgh is so abundantly supplied with coal, it seems wiser to continue the industry there.

Are there any qualities which iron possesses that could not be found in any other metal? Make a list of the ways in which iron has been of service to you personally in the last twelve hours. Is it true that the progress of a people can be judged by the extent to which it uses iron?

73. Cotton. — We come now to a commodity which people wear. Almost everybody makes use of cotton goods; sometimes, perhaps, they do not know it. No other material from which clothing is made meets so many different demands with a price relatively so reasonable.

The United States, as in the case of other commodities which we have mentioned, ranks first among the nations in the production of cotton. In fact in some years two-thirds of all the cotton in the world is raised in our southern states. India and Egypt rank next. Texas produces from one-third to one-half of the cotton of this country, with Georgia, Alabama, South Carolina, Mississippi, Oklahoma, and other southern states making up the list. It is a southern product almost exclusively. While it can be grown north of the Ohio, it is seldom profitable to do so.

In no way has the effect of economic forces upon a nation's life been greater than in the influence of cotton on the history of the United States. Eli Whitney's cotton gin so encouraged cotton growing that the South believed it must keep negro slaves in order to get the work done. Out of this depend-

ence upon slavery came the conditions that produced the Civil War and many features of society in the southern states to-day.

Elsewhere cotton turned the course of history. It helped make New England a center of manufacturing, as well as Manchester and its neighbors in old England. Cotton has built up great markets in the South. New Orleans ships

Imperial Valley Cotton

This picture shows how cotton is baled for shipment. Some of the best cotton grown comes from Imperial Valley. Scenes of Southern cotton growing are shown in sections 57 and 76.

millions of tons each year and Galveston's wharves handle amounts second only to those of its larger neighbor. Cotton is now turning the South to manufacturing, for it has water-power and abundant labor. Good business suggests placing a factory close to the source. No wonder the South has crowned " King Cotton."

Cotton to-day is used for other purposes than to clothe people. Strange as it seems, deadly explosives which sent hundreds of thousands of men to death in the World War

came from the peaceful and harmless-looking cotton boll. Many an article that is sold on the market under the name of ivory is really a form of celluloid, which traces its ancestry back to cotton. The seeds which once caused so much trouble are now an additional source of profit. Cottonseed oil and even the solid matter of the seeds help to feed and otherwise aid man and beast.

Ewing Galloway

A Southern Industrial Scene

Few cotton factories have their raw material quite so near at hand as the one at El Paso, Texas, shown in this picture. This shows with unusual effectiveness the South's advantages in producing cotton goods.

Imagine the occurrence of a calamity which would destroy the entire crop of cotton this year. To what extent would your own interest likely be affected? During the first part of the World War the slogan, "Buy a bale of cotton" was heard frequently, especially in the southern part of the country. What do you suspect was the reason?

74. Lumber. — Lumber is another basic product of world-wide use. It is a commodity which has always been of great service to man. Here again we find the United States taking first place among the nations of the world — this time in the cutting of wood for industrial purposes. Three-fifths

of the surface of the United States was once covered with trees. It seems almost incredible. The pioneer going into new territory found it necessary to clear the ground in order to find a place to put his cabin or plant his crops, and he was none too careful how he disposed of the trees that seemed to be in his way.

Courtesy of National Lumber Manufacturers' Association

STATELY OREGON FIR TREES

Here we see a small portion of the nation's great heritage of timber in the Northwest. About one-half of the timber cut in the United States comes from forests like this one. For several stages in the lumber business see pages 37, 103, 112, and 199.

There is still a considerable forest region reaching across the northern part of the United States from Minnesota to Maine. Another great forest region is in the South from the Atlantic coast westward through the Gulf states. A separate region, somewhat different in character, is found scattered through the Rocky Mountain district, and a fourth in California and northward along the Pacific coast. The state of Washington has lately been cutting each year more than any other, with Oregon second, and Mississippi and Louisiana next.

A number of very interesting processes are connected with sawing lumber into shape for industrial service. The cutting of the trees itself requires judgment and a peculiar knack. In doing this there has been instance after instance of reckless waste in taking only the best part of the finished trees and letting the rest rot or burn. In some states the best time for cutting trees is in winter. They can then be dragged over the snow to the rivers or lakes, on which they are floated to the mills, where they are sawed or otherwise disposed of. Tractors and special logging locomotives and

cars are also used to haul the logs from the woods to the mills.

The uses of lumber are various. Houses, furniture, railroad cars and ties, telephone poles, wagons, beams for supports in mines, are only a few of the forms in which lumber directly serves mankind. No small part of the lumber cut each year goes into pulp, which is transformed into the paper on which our newspapers are printed or by means of which

Photo by Cress, Seattle. Courtesy of National Lumber Manufacturers' Association

A Storage Shed in a Lumber Mill

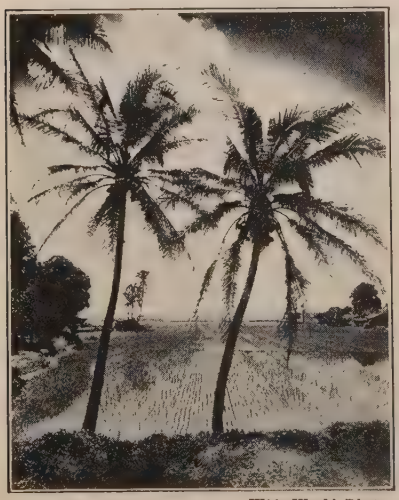
This lumber is waiting to be shipped to all parts of the United States.

other industrial needs are met. Paper wholly or partly made from wood pulp is steadily being used for a greater variety of purposes. A large quantity is still used for fuel, especially kindling wood. The trees are also useful in other ways without being cut down. The sap of the maple can be transformed into sugar and sirup, and out of the pine come tar, pitch, and turpentine.

If we cut down every year 35,000,000,000 feet or more and only a portion of that amount grows in all the forests of the

country, it is easy to see what will happen in the future. Sensible men have constantly urged people not to be so careless in destroying the wealth of forests, and to see to it that trees are planted to take the place of those cut down.

Enumerate the different kinds of workers who are employed in making available the chair or desk which you use in school. Does a city resident have any responsibility in conserving our forest resources? Make a map of the United States on which you will show the number of locations from which we obtain the important and widely used commodities. Study sugar, wool, or some commodity in which your community is particularly interested, as wheat and the others have been studied.



Wide World Photos

A Hawaiian Rice Field

Hawaiian soil and climate are responsible for many products that could hardly be grown elsewhere. The two great trees in the picture are coconut palms.

75. Special Industries of Nations.—Until tribes or nations began to trade they could not specialize long in any particular kind of industry, because they had to provide for themselves everything they really needed. But as soon as the men in one nation got acquainted with what the people elsewhere were doing, then the exchange of goods began, and it was natural for each nation to develop the industry which it could perform best. Climate, soil, and means of communication always determine to a large extent what the people of any country will do for a living.

When the United States became independent, it was a nation of farmers. There was some trade with the rest of the world, but the people of the colonies had to supply all their

needs in a very large measure. Since farming is the source of the immediate essentials of life, it is not strange that this was the main industry of the country for many years.

We have already called attention to the way in which England's geography has determined her industrial progress. She has every facility for being a great manufacturing nation except that her raw materials have to be brought from a distance. Her extensive commerce meets this need and

Drying Coffee in Brazil

International trade is both the cause and the result of the coffee-growing industry.

England's supremacy in the world of manufacture, in comparison with its area, is unquestionable. France and Italy have a warmer climate, well suited for farming and for products like the grape and mulberry tree, which are responsible for the wine and silk that so notably characterize those countries.

On the other hand, Russia had no facilities for manufacturing, and because of its severe climate could not have a wide range of agricultural products. It is well adapted for wheat raising, however, and was formerly America's chief competi-

tor in raising that grain. The tea of China and Japan and the coffee of Brazil are the result of climatic conditions which do not exist to the same extent elsewhere. As far as we can tell now, it is not likely that any other countries will compete with them in raising their specialties for the world.

Germany, her soil ravaged by devastating wars, was a backward nation for many years. The great Bismarck finally brought the states together into a mighty empire (1861–1871). Statesmen and scientists then combined to work a marvelous industrial transformation. Germany became a leader in many lines — agriculture, manufacturing, and commerce — a nation of varied industries. The same period, the last third of the nineteenth century, saw similar changes in the United States, so that we also were no longer a distinctively agricultural people.

Do you think it likely that any of the nations which we have mentioned will become noted for other products than those of which we have spoken in this section? Add to the list of nations given here if you can, mentioning the specialties in which they are particularly interested.

76. Industrial Interests of Different Sections. — The same conditions that cause a nation to devote itself mainly or largely to one kind of activity or to the production of one commodity are also likely to affect the different sections within a nation in a similar way. A very slight acquaintance with the geography of the United States makes this fact clear.

Southern New England is devoted very largely to manufacturing. It has a large supply of water power, though that has now been used to pretty nearly its full capacity. It is near the great markets of the United States, and the products of its factories can be readily distributed. Labor has been reasonably cheap and abundant. These facts have helped to overcome the disadvantage of having to bring the raw cotton or wool from many miles away.

Now, however, cotton manufacture has shifted to the South, where almost all the advantages of New England now exist and where cotton has to be carried only a short distance. Yet the South itself has been a most convincing example of the effect of geography upon a country. Two crops, tobacco and cotton, have been the mainstay of that section of the country. The relatively warm climate and fertile soil have made it possible to cultivate them easily with unskilled labor. Until the last generation, the South was almost exclusively agricultural and limited to those two crops.

The Mississippi valley and the plains district to the west are also fitted by nature for farming and stock raising. They could hardly be otherwise than the great granary and meat center of the United States. Go west to the Rocky Mountain district, and you find that mining is the natural occupation for many men.

The Pacific coast is a district all by itself. Its climate differs from that of any other part of the United States. In the Northwest the high average of moisture is responsible for great forests which have developed lumbering to an extraordinary extent. The Southwest is semitropical and the products are what one would expect from a warm climate.

Here we may summarize the reasons given by our Bureau of the Census for the centralization of industries in certain localities. The same conditions are responsible for specializing by individual cities as for separate industries.

(1) Nearness to raw material or to fuel.
(2) Nearness to markets.
(3) Water power.
(4) Favorable climate.
(5) Supply of labor.
(6) Capital available for investments.
(7) The momentum of an early start.

Explain with reference to each geographical section in the United States, what industrial conditions would be of special importance in determining its development. Is this tendency toward specialization by sections a force that will make toward union or toward

disunion? Is it true that the geography of the United States caused the Civil War?

The principle of *comparative costs* often explains the prominence of one industry or product in a certain section. If a district can produce perhaps three commodities with reasonable success, but has special facilities in connection

PRODUCTS OF A HOT CLIMATE

These date palms are grown in the Coachella valley, California, where the climate is very hot and dry. The dates are covered with paper to protect them from the birds and the sun.

with one of them, it will be best for it to devote itself chiefly to that one, and let other districts furnish the others. In that way its total gains would be greatest even though it might have good facilities for producing the other two. The same principle applies to cities and even nations.

77. Communities That Specialize. — Two tendencies are at work to bring about the growth of cities. One of them,

of which we have spoken, is *specialization*, which causes the investment of great amounts of capital and the bringing together of a large number of laborers into a place where some industry can be carried on with some particular advantage. The other is *concentration*. By this term we mean the centralization at one point of the chief financial interests connected with some particular section. Trade centers are invaluable in every distinct area within a nation.

A Typical Southern Tobacco Field

Here we see one of Virginia's most important crops. That state and North Carolina and Kentucky raise more than half of the country's tobacco.

Within the sections of the United States which are largely devoted to one industrial activity are usually found some cities that specialize particularly along that same line. Omaha, Kansas City, and St. Joseph are widely known as meat-packing centers. A large proportion of their whole business is related to that one industry. Chicago, in the same general neighborhood, carries on more meat-packing than any of the others, but, as we shall see, its importance

as a general market overshadows its importance along this line. Minneapolis is favorably situated with reference to great wheat fields and has the water power on which its milling interests were first founded. We have already mentioned Pittsburgh and Birmingham, noted for their iron and steel mills.

In several well-known cities the main reason for a development of a specialty is the momentum of an early start. Troy

Ewing Galloway

A City That Copper Built

This is Butte, Montana. There would be no Butte if it were not for copper.

produces three-fourths of the collars and cuffs of the United States. Brockton and Lynn, in Massachusetts, are world-famous for boots and shoes. The New York towns of Gloversville and Johnstown together make half the gloves in the United States. Perhaps when these industries were started in their particular towns, there was some local reason which favored their establishment, but now there seems to be no specially favorable feature, either in the situation or in other conditions in these places. They simply became famous for one commodity and have continued to

make that the basis of their industrial interest. The same thing is almost equally true of East Liverpool, Ohio, and Trenton, New Jersey, in the matter of pottery-making.

Notable instances of an industry resulting from nearness of markets are seen in Paterson, New Jersey, the greatest center of silk manufacturing in the country, and Bridgeport, Connecticut, which has excelled in the production of firearms. Both these places are near New York City, and the products of their factories can be easily sent all over the country.

Does your community specialize in any one thing? If so, can you explain why? Can you give any reason for the establishment of Gary, Indiana, deliberately chosen by the United States Steel Corporation for setting up new factories? Can you explain why Akron makes such great amounts of rubber goods, and Detroit automobiles? Why have many "boom" towns built on one industry gone to pieces?

78. Cities as Industrial Centers. — No city becomes a first-rank community which devotes itself solely to one occupation. Not even Pittsburgh is an exception to this statement, for not over half of its total output is connected with the things that make the city famous. Chicago, too, is not a great city merely because it packs meat. It is a great meat-packing center because it is a center of trade and a terminus of railroad lines running right across the continent, east and west, north and south. Location is responsible for Chicago. Philadelphia and New York produce many commodities in greater quantities than small towns which are famous all over the country for their production. But in these large cities so many other interests appear that one product may constitute only a small part of its sources of profit. The concentration of business has brought financial power to them.

Many seaports inevitably become centers for the entire region reaching inward and upward from them. Boston for New England, New York for its own state and even for the whole country, Baltimore, Philadelphia, New Orleans, San

Francisco, Seattle, Buffalo, and Cleveland, are examples of ports that are centers of trade for thousands of square miles of territory which feed them. Ease of communication with the interior is a factor which gives some of these places tremendous advantage.

Another reason why business centers in cities is that if there has been some special industry to get the city started, the workers in this city must have their wants supplied in some way. Grocery stores, clothing stores, amusement places,

Fairchild Aërial Surveys

THE TIP OF MANHATTAN ISLAND

If anything serious should happen to the section shown in this picture, the whole country's finances would be badly shaken.

street-car lines — all serve the needs of the factory workers, and at the same time add to the general business of the city. The greater opportunities in the way of wages, business advantages, amusements, and the like, draw people from the country and the small towns into the big places and crowd these centers still more.

Some cities just naturally grow up as the center of business for a distinct geographical or industrial area. St. Louis was for many years the center of the entire Southwest and still holds its old preëminence as a fur market. Recently Atlanta has taken a promising place in the South Atlantic states.

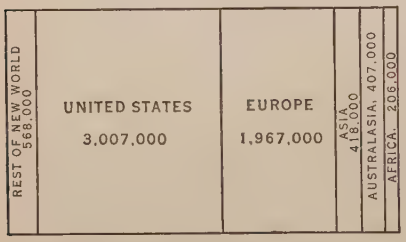
Denver is the center for the Rocky Mountain district. Los Angeles in the far Southwest has added the attractions of a wonderful climate to the inevitable need of that region for some city as a business center. Just as England has centered its financial interests in London and France in Paris, so in this country New York has become the capital of the nation in all respects except the matter of government.

Do not make the mistake of thinking that the growth of great cities is a fact peculiar to the United States. There were famous cities in ancient times — Babylon, Alexandria, Rome, and the rest. The European and Asiatic capitals have gained tremendously in population since the nineteenth century began — London, Berlin, Tokyo, and even Paris, though the history of Paris goes back many hundreds of years. Buenos Aires and Rio de Janeiro, in South America, show a similar marvelous growth.

What is likely to be the effect of the Panama Canal on any cities of the United States? Will Washington ever become a great industrial city? Find from the census list the names of any other city over 100,000 population whose growth you can explain on any basis which has been suggested in this chapter. Did the railroad make your community possible? What effect has it had upon the growth of your town?

79. The Vast Significance of Transportation. — Sometimes it seems as if a city had grown too fast for its own good. This much is sure, that the bigger a city is, the greater is its dependence upon the country outside its limits. Its food supplies must be raised hundreds or thousands of miles away. Its milk, as we have already said, is brought in from long distances. If the railroad employees were to go on a strike, the city might starve in a few weeks. And for these same food supplies the people must depend upon men whose business profits come from dealing in the things that keep men, women, and children alive. The commission merchant and the wholesale grocer who buy the food supplies for a large city have its life in their hands.

How do the city's factories get their raw material and their fuel? The railroad and the auto truck and sometimes the steamboat bring it. How does the farmer pass on his products to other people? The railroad and the auto truck, and still more rarely the steamboat are instrumental. Where do the city workers live? Some of them, it is true, live in terribly congested communities so that they can easily walk to their work. Such people cannot afford anything better, but those who can, move farther away into a little pleasanter district. Then they use the street car or the suburban train or an automobile. Perhaps before long we shall be going back and forth between our work and our homes by airplane, which will be just another kind of transportation.



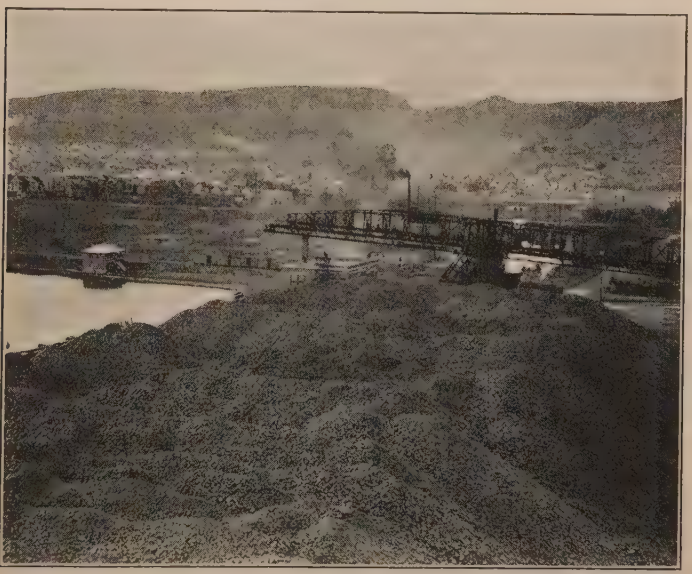
HIGHWAY MILEAGE OF THE CONTINENTS

The figures given are for miles of highway. Europe's low figure as compared with the United States is due at least partly to the immense area of Russia and the relatively low highway mileage there. Can you measure a continent's civilization by its facilities for transportation?

The services of the railroads to the country cannot easily be overestimated. How quickly they do their work in comparison with the plodding stagecoach and the slow canal boat! They have increased trade and business in every line of industrial activity. They have made possible the settlement of new territory much more quickly by taking settlers within a reasonable distance of new lands. They have furnished the means by which the crops from distant prairies are conveyed to the centers of population. They have fused the country into one united whole, by making communication between one section and another quick and reasonably cheap. Can such accomplishments be claimed by any other industry? If in the future the automobile and the

airplane take a considerable amount of their business away from them, we must still give them credit for great achievements.

Make a list of ten articles in common use which you could not have if it were not for the railroad. Has improved transportation helped to better the conditions of the working people? Has it made living conditions more uniform in the different sections? Have railroads made more or less serious the problems of great cities?



Ewing Galloway

A City That Depends on Transportation

Duluth needs hundreds of thousands of tons of coal to carry on its business and to keep its people comfortable. Much of this coal comes to it on the lake boats. From this same port is shipped to the steel centers the iron ore which is mined less than one hundred miles from Duluth.

In hardly a less degree modern industry depends upon communication. Before factories operate or the farmers harvest their wheat, orders are given and sent for the goods they produce. Mail, telephone, telegraph, and radio collect news, distribute it, carry orders, instructions, and advice

to every grade of workers in every form of work. Without their help hardly a train, a boat, or a bus would run. Without their aid grain might rot in the fields, the city's hum would be but a murmur, and the speed of the hours would die down to the snail-like crawl of time in the days of George Washington's childhood.

Show how many forms of transportation or communication probably entered into the production of this book; into a box of strawberries that helped to provide your dessert one day last June.

80. Nation-Wide Business. — Trade or commerce takes place because every community cannot produce all the necessities and luxuries it wants, but can usually produce *something* efficiently. People are not content to live on the bare necessities of life — they demand variety as well. The development of communication and transportation has made it possible to get things more cheaply.

Years ago, when it took weeks to cross the seas and months to cross the continent, we got along without many things because of the cost and dangers of transportation and the length of time required to transport goods. Now, however, transportation is fast, safe, and inexpensive. It no longer takes three months or more to send goods from New York to San Francisco.

With the development of transportation and communication and the expansion of advertising have come firms that do business with people throughout the nation. The Standard Oil Company has branches all over the country, which often operate under different names, but are really parts of the Standard Oil Company. The United States Steel Corporation also does business with firms all over the country. Telephone service is supplied to millions of people by the American Telephone and Telegraph Company.

There are many beneficial results of nation-wide commerce. More and better service is rendered to all classes. Through large-scale production we have better goods at a lower cost.

Through speed in transportation, varied products are available. California supplies New York with fruits, while New York supplies California with clothes, books, and machinery. Through this extensive trade between various parts of the country, men have become more acquainted with their countrymen. Before the development of the interior of our country, the East and the West were shut off from each other.

Wide World Photos

WHERE CABLE MESSAGES ARE HANDLED

This is the office of the Western Union at Penzance, England. Messages go across the ocean to and from this place with lightning speed.

There is still another result of extensive commerce — added prestige to the nation. The United States has greatly increased its economic power by developing its industries and bringing together all the corners of the country into one national industrial unit.

81. Trade among Nations. — Why have any trade? The answer is easy: because somebody produces something that somebody else wants, and because the second party has

something to give which the first party is willing to take. Difference in tastes and likings between sections of a country or between nations is often no more serious than between persons in the same town.

There is no more difference between Italy and Norway than between California and New York. Indeed they are not so far apart. When trade has developed at all, it is

Ewing Galloway

A Scene in International Trade

The docks of Maracaibo, Venezuela, are crowded with freight imported by American and other foreign oil companies. This is a notable example of international business development in recent years.

natural for nations to exchange products. In many cases it becomes necessary. What would have happened to England in the World War if she had not been able to use some of the wealth she had stored up from her sale of cotton goods, cutlery, and the like, and exchange it for food which her people must have in order to live?

There are nations that specialize just as there are communities that specialize. Some nations are distinctly agricultural, such as Canada, Australia, Brazil, and Argentina. We

import real silk from Japan because it is cheaper than trying to produce it here and Japan can do it so much more easily. Nations like Great Britain and Germany are primarily manufacturing nations and produce many different articles.

Make a list of ten important commodities imported and ten exported by the United States, and tell why each is imported or exported.

International trade helps to maintain peace among nations. Nations that secure a great deal of their food or raw material for industry from a certain source do not rush recklessly into war with the nation controlling this source of supply. Feelings of common interest which help them to understand each other and judge each other less hastily may be brought about among nations that are closely tied in business relations. At the same time we have to admit that great wars have grown out of commercial rivalry.

International trade encourages improvement in the methods of producing goods and in the quality of the goods themselves. When German firms undertook to advertise all over the world their products "Made in Germany," they were obliged to put good material and workmanship into them, else the slogan "Made in Germany" would be a boomerang. Trade between nations has been of value to backward nations in helping to bring about the development of their natural resources, and to introduce the customs of civilization. Sometimes, it is true, this feature has been carried to the point of exploiting the people and treating them as if they had no rights commercially or otherwise.

Has China the right to feel injured because it was forced to open trade with European nations?

82. Hindrances to International Trade. — If international trade is natural, why spend time on a special discussion of it? Simply because some special conditions affect trade between nations which do not commonly influence domestic trade. The very fact that different governments

are interested in it would introduce a new element. It is a custom of many governments to impose regulations and restrictions on foreign trade, while they may do little or nothing of the kind with trade at home.

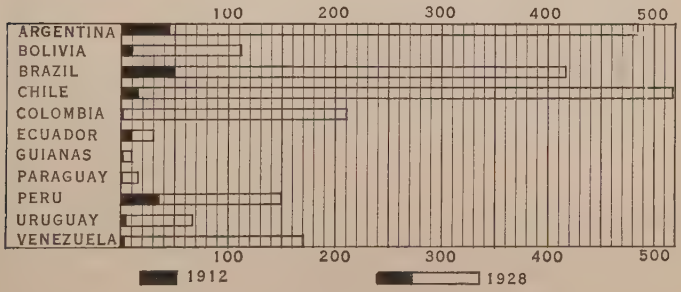
If there are so many good results produced from this trade among nations, why do we not have absolute freedom of business relations? Unfortunately, statesmen and politicians too often consider merely what seem to be the selfish interests of their nation at a given time. During our colonial history English lawmakers thought that the building up of some industries in the colonies might harm the men engaged in the same industries in England. So they passed acts forbidding the colonies to manufacture hats, or to operate iron works, and the like. Their Navigation Acts aimed to keep other nations out of colonial trade and not particularly to harm the colonists, but this kind of selfish legislation is seldom helpful to the country which enacts it.

Difficulties in transportation, also, interfere with international trade. Goods that have to be carried three thousand miles or more across the ocean meet with dangers and expense from which trade within the country is usually free. During the World War, when the western European countries and the United States found difficulty in getting as much sugar as they wanted, there were tons upon tons of sugar in the East Indies; but the ships that might have been engaged in carrying it were transporting munitions and men across the Atlantic.

Another barrier to international trade is the ill feeling that sometimes exists between nations on account of race or political jealousy or similar causes. The strong commercial rivalry between Germany and England before the war did help, it is true, to make each nation more keen in competing for the trade of other countries; but it did not develop good will between Germans and Englishmen. It is easy to shatter business relations, but it may take a long time to build them up.

Differences in language, customs, and money standards also interfere with trade between countries. Producers prefer to put up their goods for foreign markets in the same form in which they sell them at home. If they are used to selling goods by the dozen, for instance, they do not see why other people want to buy them by tens. Distinctions of no more importance than that lead to misunderstanding and failure to get trade.

Would the fact that in England and some other countries people drive to the left when they meet some one make any difference in American trade with them?



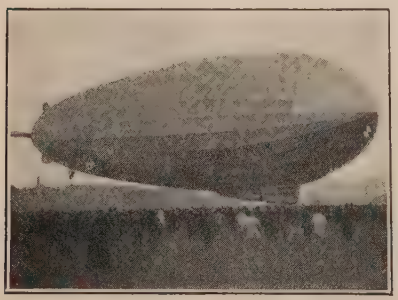
A New Field for American Investments Abroad

Marked interest has been shown by American business men in late years in the commercial opportunities in South America. This drawing represents graphically the tremendous increase in American investments in the period of sixteen years in South American countries. Would the expansion of foreign investments have any effect upon American business at home? Why do you suppose the United States has been slow in getting into the South American investment field?

Sometimes the matter of government makes a difference. After the World War the United States would not recognize the Soviet government of Russia and would not assume any responsibility for merchants who did business in that country. On that account many business men would not for a while take the risk of trading there. A country whose monetary system is unsettled is also in a poor position to

trade, for a person might not be able to tell from one day to the next how many of its units it would take to equal a pound or a dollar.

One of the most common kinds of international trade barrier is a tariff law. A citizen of our country might thoughtlessly suppose that there would be no more trouble carrying goods across the boundary line between two countries in Europe than between two states in the United States — in other words that there would be *free trade* among those nations as there is among our own states, with no charge or tax levied upon goods crossing the borders. But if one stops to consider that there are many goods which are not admitted to the United States without the payment of taxes, he may not think it so strange that nations in Europe will not admit free everything which their citizens may care to import. Taxes on imported goods may be levied either to bring revenue into the government's treasury or to encourage home industries. We shall have more to say later about the wisdom or folly of the latter policy (§ 153).



Keystone View Company

THE GRAF ZEPPELIN

This German airship has crossed the Atlantic several times, and has flown around the world. Does it foretell regular air traffic between continents?

Some products, such as wheat, meat, coal, iron, cotton, and lumber, are particularly vital to the world's life and trade. Nature has provided certain sections with favorable conditions for one product, other sections with suitable means for producing the rest. Natural conditions or the readiness of access to raw material often explain the foundation and growth of noted cities. Underlying all of our modern activity in producing things, in building and operating factories, and in going to and from our homes are the many forms of transportation and communication; products and places alike would be impossible without

them. International trade does not differ from other kinds in purpose or in underlying causes. Its world-wide scope permits differences in customs, geography, or political interests to affect it considerably. Protective tariff laws are among the most common barriers.

Special Studies

Great Industries of our Country
Great Industries of England; France; Germany; Argentina; Japan; etc.
Industries of Our Own Community
Transportation One Hundred Years Ago
A Great Railroad System of To-day
The Industrial History of Our Community (or of Pittsburgh, or Gary, or Waterbury, or some other place)
A Year's Program on a Western Wheat Farm
A Year's Program on a Cotton Plantation
A Year's Program inside a Coal Mine
A Year's Program on a Cattle Ranch
Transportation on the Great Lakes
Our Dependence upon the Rest of the World
The Dependence of the World upon the United States
The Effect of the World War on International Trade
Our Principal Imports and Exports

Reference Readings

Chamberlain, *Thrift and Conservation*, Chapters 15–17
Clay, *Economics for the General Reader*, Chapter 9
Ely, *Outlines of Economics* (Third Revised Edition), Chapter 18
Jennings, *Introduction to American Economic History*, Chapters 5, 6, 11, 12, 14, 15
Lippincott and Tucker, *Economic and Social History of the United States*, Chapters 14, 16, 27, 28
Marshall, *Principles of Economics*, Book IV, Chapter 10
Marshall and Lyon, *Our Economic Organization*, Study 11
Marshall, Wright, and Field, *Materials for the Study of Economics*, pages 547–577
Seager, *Principles of Economics*, Chapter 21
Seligman, *Principles of Economics*, Chapter 32
Taussig, *Principles of Economics*, Chapters 32–35
United States Bureau of Education, *Lessons in Community and National Life*, A–24, B–24, C–4, C–10, C–15, C–25
Weld and Tostlebe, *A Case Book for Economics*, pages 163–171, 210–228

PART IV: BUYING AND SELLING
(Exchange)

CHAPTER IX

WHAT MONEY IS AND DOES

A single penny fairly got
Is worth a thousand that are not.

— German Proverb.

People have been producing commodities and consuming them almost since the beginning of things, but it was not until men wanted something that other men had that exchange began to take place. Exchange is trading one thing for another. To-day, we usually give money in exchange for goods or services. What is the real nature of money? How did the use of money come about, and what are the facts about its forms and uses?

83. The Beginnings of Money. — Men did not always have money, but they did have goods of various kinds. Whenever a man wanted anything, he would find some way, direct or roundabout, of exchanging whatever he might have for it.

In the beginning, of course, people exchanged things directly, one thing for another. This simple exchange is called *barter*. When the Indians first met the white men, that was the kind of trade that took place. The Indian traded valuable skins or whole townships for a few knives, some yards of bright cloth, or some other thing which he thought he wanted.

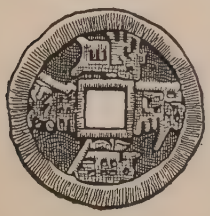
Barter is a very unsatisfactory system of trade to use extensively. A man who wants a horse may find that the only animal which any one else in the community wants to trade is

a cow. To bring together Man No. 1 and Man No. 10, each of whom has something that the other one wants, may be not at all easy. If a company that makes steel rails wants a carload of flour, it may be hard to find a flour company that is willing to exchange flour for steel rails.

SHEKEL

This, the chief silver coin of the Jews, was first coined by Simon Maccabaeus.

The simplest way out of the difficulty is to find something in such universal demand that every one will be willing to take it when he has something to dispose of. Among some Indians, skins served the purpose. In other cases, strings of beads, called wampum, were employed. The Virginia colonists used tobacco. Salt and a variety of other things have also figured in this capacity at various times and places. Cattle were used among the ancient Hebrews and other peoples. The Latin word for money, *pecunia*, is derived from the Latin word for flock or herd.



TSIEN

It takes from ten to fourteen of these Chinese coins to equal the value of one American cent.

Finally some metal was used, perhaps first in China. It was always in demand. It would stand handling well, and its value was more steady. In the course of time it was put into the form of a coin and some figures or words stamped on it to identify it. And lo! here we have real money. Restrict its designing, so that only the government shall have the right to coin it, and mill the edges so as to keep people from cutting or rubbing off some of the metal, and you have about every feature that we see in money to-day.

SESTERCE

This, one of the earliest silver coins, was first issued by the Roman government about 269 B.C.

If everything that a community required was produced there, would money be needed? Furs were used for money in the old French-Canadian settlements. To what extent were they suitable?

84. Money and Its Uses. — So money is really a commodity, like a chair. Like a chair, it may be made of different materials. *Money* is any commodity which people in general will readily accept in exchange for their goods or services. It has one main use, with other secondary uses.

(1) In the first place, it is a *medium of exchange*. It will be accepted by people who have something to dispose of, because they can in turn exchange it for something that they want.

(2) It serves as a *measure of value*. After a certain weight of metal is agreed upon as the basis of reckoning — a kind of common denominator — the worth of other things is compared with this unit and we say they are worth ten dollars, fifty francs, or whatever may be the unit we are using.

This service is especially valuable when the exchange is not actually made at the time the bargain is arranged. If I buy a bushel of potatoes to-day, I should pay for them at to-day's price, not next month's, even though the grocer might not require me to perform my part of the bargain until then. Money permits me to estimate now what the goods are worth and to pay that amount at the proper time in the future. This use of money is sometimes called a *standard for deferred payments*.

(3) Money also offers a *means of saving*. Many goods or services can be used only at a particular time and cannot be stored up. If the return for these is put into the form of good money, it can be preserved indefinitely. Suppose a farmer tried to save milk, or a manufacturer hats. It would not be wise to attempt to save even a barrel of apples or a suit of clothes for any great length of time, but good money can be saved as long as you wish. You can hoard it, you can put it in the bank, or you can invest it in a hundred ways.

Could a barrel of apples be invested? Would primitive people be able to get along with very little money?

85. What Money Is Made Of. — Only a few things are really suited for widespread use as money. In almost all the countries of the world to-day metallic money is used. Metals possess more fully than other kinds of commodities the qualities that good money should have. These qualities include the following:

(1) *Durability.* Durability means long wear — money must be able to withstand long and hard usage.

(2) *Portability.* "Portable" means "easy to carry." It is a rather simple matter to carry five dollars' worth of gold or silver with you, but you just try to carry five dollars' worth of flour or sheep very far.

Keystone View Company

THE LARGEST PIECE OF MONEY IN THE WORLD

This is a Swedish coin of 1659. It weighs 32 pounds and is valued at $8 in our money. What is the matter with this as money?

(3) *Homogeneity.* Money should be of such a substance that all parts of it will have the same qualities. Cattle or furs would hardly meet this requirement.

(4) *Divisibility.* Money should be able to be used in various amounts without loss. Metal usually can be divided into small parts, each of which represents a proportionate value of a larger sum. How could you pay a debt with half a cow?

(5) *Cognizability.* Money should be readily distinguishable from other substances, and should be easy to recognize at a glance. Otherwise it could be counterfeited without much difficulty.

(6) *Stability.* Since money is a standard by which we measure other things, its value should remain approximately the same over a long period. Wheat and salt have this quality to some extent, but their value rises and falls continually, even though it may not change greatly within a month or two.

(7) *Value in itself.* It is not reasonable to expect people to accept something in exchange for anything else unless it is

One Way of Getting Gold

The tremendous force of the water tears loose the gold-bearing ore. This particular example of hydraulic mining is at Atlin, British Columbia.

useful for its own sake. Unless a commodity is good for something, people will not care to accept it for use as money.

(8) *Trustworthy authority.* Unless we know who makes the money, we have no way of being sure that it really is what it is represented to be. In all countries to-day the issuing of money is done by the government directly or by its authority.

To meet all these requirements nothing has been found equal to gold and silver. Even they are not suitable for small sums, and we have to use nickel or copper instead. They are

also slightly lacking in the matter of durability, but this difficulty is overcome by adding a small percentage of another harder metal to them.

Why not use iron for money, as they did in old Sparta? What is the matter with tin, aluminum, salt, cattle, wampum, in connection with each of the qualities mentioned? How did people pay for things in California in 1849? Why not do that way now?

86. Varieties of Money. — Perhaps you will ask, if all these qualities we have mentioned are necessary in good money, how we can use paper for money the way we do. In answering that question, we must explain five varieties of money.

(1) We use the term *standard money* or *commodity money* to refer to money made out of a commodity which is useful on its own account, and which we have taken as the material to be the foundation of a country's money system. Every country has a particular kind of money, usually gold or silver, upon which every financial value is reckoned. All forms of money are based on this standard. Gold money is therefore standard money in this country and most others.

(2) Suppose a government decides to save wear and tear on metallic money by keeping a good deal of its coinage metal in its own treasury, and issuing pieces of paper to represent the metal which people can pass from hand to hand conveniently and can exchange at the treasury for real money whenever they want to do so. Then we have *representative money*, for each piece of paper represents $1, $5, or some other amount of metal money that is actually stored in the treasury to back it. Much of our paper money — though not all of it, by any means — is of this kind.

(3) Just as a business man whose financial standing in his community is good may get people to accept a note in which he promises to pay money in the future, so a government may issue notes promising to pay real money. If the people have confidence in their government, they will take these

notes just as readily as anything else. Then this paper becomes *credit money*. It differs from representative money in that it is not backed piece for piece by coin. Some of our United States paper money is of this kind.

(4) Sometimes governments have issued what is known as *fiat money*. The word comes from the Latin *fiat*, which means "let it be done," "let it become," or "let it be made." Such money does not represent real money; neither does the government promise to give real money for it at any time.

How Much Could You Buy with This?

In the summer of 1923 this was worth about one-half cent in United States money. The German people had to have some kind of money, but so much of this kind was printed that it became practically valueless. Why did Germany not use real money at this time?

It is simply stamped or printed, "one franc," "ten shillings," "one dollar," "one thousand marks," and issued for circulation among the people. Well-managed governments do not issue fiat money unless their countries are in extreme financial distress. Then the people simply have to have something to use as money.

(5) Still another kind is *token money* or *subsidiary currency*.

This is money of small denominations, issued solely for convenience. The government buys the necessary metal just as any one else might buy it, and coins it in accordance with the needs of the people. All our United States money below the dollar is of this kind. The government is careful to avoid putting into these coins quite as much value in metal as the trade value of the coin, so as to discourage people from melting the coins and using the metal for something else. The half-dollar, for example, does not contain quite fifty cents' worth of silver at its normal price, nor the cent a cent's worth of bronze. Token money is kept acceptable by being exchangeable for standard money.

To what extent is token money credit money? If your community ran short of five-cent pieces, how could the need be supplied?

Now what has all this to do with *paper money?* Just this. Practically all representative money and credit money are paper. So, usually, is fiat money, but we will pay no attention to that, for honest governments do not issue it when there is any way to avoid it.

The use of paper means a great saving of the precious metals. Paper money is made in high denominations, and is therefore convenient for doing business on a large scale. Paper money is easy to handle, is light in weight, is easily recognized. One hundred dollars in the form of gold dollars would be quite heavy to carry; but one piece of paper may represent the whole amount and even one hundred small pieces of paper all together are not so very heavy. So though paper money has almost no value in itself and is not so durable as metallic money, its convenience far outweighs its drawbacks. The chief caution needed in connection with it is that governments need to be careful about issuing too much. It is comparatively easy to run printing presses, and there may be a temptation to put out more of this kind of money than the public needs.

Be sure that you do not think that there is coined money

for every piece of paper money in the United States — there is not. But we have enough faith in the government's word so that when it says on a piece of paper that it will pay a certain sum of money, or that the paper represents the gold or silver, we are as willing to take the promise as the money itself. The western part of the country is not quite so accustomed to this idea as the East, and we see much more gold and silver in actual circulation out in the Rocky Mountain district and on the Pacific coast than we do in the eastern communities.

Can you imagine any conditions under which a money system could use nothing but paper? Would this paper money be acceptable all over the world? In what ways would it be a disadvantage to issue an unnecessary amount of representative money? of credit money? What is wrong with fiat money? After the World War several governments, including those of Germany and Russia, issued paper money in enormous quantities. Its value went down so far that much of it was worth more as paper than it was as money. Was there any sense in doing this?

87. Monetary Systems and Their Standards. — The different denominations of money in a country, together with their values and limitations, constitute the monetary *system* of a country. There is also a monetary *unit*, which is the particular denomination or the particular piece of money in comparison with which all other pieces of money in a particular country are reckoned. They are alike only in that a fixed amount of gold is the standard of measurement. England reckons by the *pound*, and France by the *franc*. Our standard *dollar* contains 23.22 grains of gold, to which enough alloy is added so that its total weight is 25.8 grains. Queerly enough, our standard coin is not now coined at all. It would be a little too small for convenient use, and substitutes for it do just as well.

How can you have a standard coin which is not coined? Did you ever see a gold dollar?

A table showing the monetary units of some of the coun-

tries and their values in United States money is given below. These values are based on the supposition that the units

Country	Monetary Unit	Value in U. S. Money
Argentina	Peso	$0.9648
Belgium	Belga	$0.1930
Brazil	Milreis	$0.5642
Canada	Dollar	$1.00
Denmark	Krone	$0.2680
France	Franc	$0.1930
Germany	Reichsmark	$0.2382
Great Britain	Pound sterling	$4.8665
Italy	Lira	$0.1930
Japan	Yen	$0.4985
Netherlands	Guilder (florin)	$0.4020
Norway	Krone	$0.2680
Portugal	Escudo	$1.0805
Spain	Peseta	$0.1930
Sweden	Krone	$0.2680
Switzerland	Franc	$0.1930

are of actual metal money of standard quality. During the World War, when paper money was used instead of metal, the value of a pound, franc, and other units of anything else than gold became considerably less than these figures. Other causes than war might produce a similar situation if they disturbed a country's finances sufficiently.

Look on the financial page in the newspaper for any differences between the values given above and the present-day exchange value of any of these coins. Would it be desirable or possible to have a uniform standard coin used in all countries?

Find out something about the coins used in England, France, and other countries. During the World War, you could not find gold coin in England. Where do you suppose it had gone, and why? What would you understand by "the return of a country to a gold basis"? What difference is there between England and the United States in the use of the word "penny"? Will Canadian money be accepted in the United States and vice versa? Why?

There have been conflicting ideas about the use of gold and silver as standard money in the currency systems of the

world. Using one metal for the standard is called *monometallism;* using two metals is called *bimetallism.* Most of the progressive countries of the world to-day have a monometallic system with gold as its basis.

In some respects there would be an advantage in using both gold and silver as standard. It would seem then that the producers of neither metal would have an advantage over the other, and if the relative value of the two metals could be definitely fixed by law, the prices of these and other commodities might be kept more stable. But the trouble is that, no matter what a law may say, no two things do stay at exactly the same relative value toward each other for any great length of time. You would recognize that fact at once if you compared gold and wheat or gold and watermelons. Your parents have realized its truth, no doubt, if they have compared the general cost of running a household nowadays with corresponding costs when they were children. A dollar will not buy nearly so much now as then.

Our present laws fix the coinage ratio of silver and gold at about 16 to 1. That is, it takes about sixteen times as much silver to make a dollar as it does gold (silver, 371.25 grains; gold, 23.22 grains). But when silver and gold are used for other purposes than coinage, they simply will not stay indefinitely at just that ratio. Though all the great nations have tried bimetallism, they have become convinced that it will not work satisfactorily. England gave it up in 1816, but the United States struggled on with it until 1900.

The principle back of this difficulty is known as Gresham's law, because it was first stated definitely by one of Queen Elizabeth's ministers of that name. *Gresham's law* states that if two or more commodities are used as money and if one of them has been given a higher value as currency than it has as a commodity on the market, it will be circulated in preference to the others, and the commodities which are not overvalued will tend to disappear from circulation as money. In other words, poor money drives out good. The people

want to keep the money which is really worth what it is represented to be, and therefore they hold on to it in preference to the poorer money. The government also keeps all the good money it has, and thus another part of the good money disappears. Merchants from other countries demand good money in payment for their goods, so still more of the good money goes out of sight. So if silver, for instance, were coined whenever presented to the mint by anybody and if it were valued more highly for coinage than for business purposes, it would be used for money, and the gold money would go out of circulation.

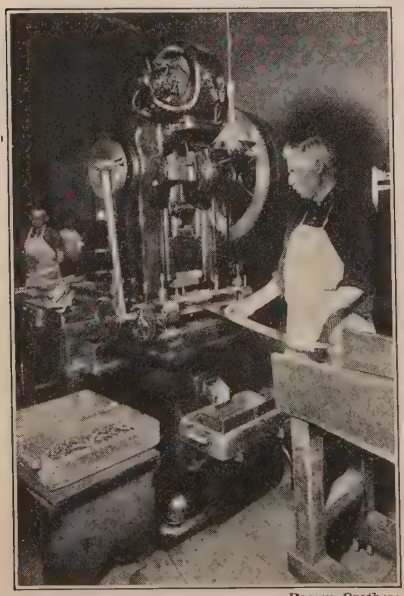
Still another question of policy concerns the government's treatment of the matter of coinage. If any person may present metal to be coined into standard money, we have what is called *free coinage*. If the government makes no charge for the work done by the mint, we have *gratuitous coinage* as well as free. If there is a charge just high enough to meet the cost, it is known as *brassage;* if it is more than that amount, it is called *seigniorage*. In the United States to-day, we have *free* and *gratuitous* coinage of gold, but not of silver or other metals. The government buys these just as it needs them.

You are not obliged to accept all kinds of money when they are offered to you — only money that is legal tender. *Legal tender* money is that which the law declares must be accepted as satisfying a debt when offered in payment. If you owed me $100, I might be glad enough to get it so that I would take it all in nickels if you wanted to pay it that way; but you could not oblige me to take more than twenty-five cents in coins of that size.

88. The Monetary System of the United States. — The monetary system of the United States has passed through a number of stages before reaching that of to-day. In the colonial period bartering was done extensively. The available coins were chiefly English, Spanish, and French. During

the Revolutionary period the Continental Congress issued a great deal of paper currency. As you probably know, its value went down so fast that "not worth a Continental" came to be a common slang phrase.

After the country became independent the present decimal system was adopted (1784) with the dollar as the unit of value. The first mint was opened at Philadelphia in 1792.



Brown Brothers

MONEY-MAKING

This man is running a strip of gold through the machine. When it is working it punches out 450 twenty-dollar gold pieces in one minute.

At first the coinage ratio was 15 to 1 instead of 16 to 1. Soon silver went down in value. Gresham's law automatically began to operate, and gold money disappeared. In 1834 there was a very important new law. The ratio became 16 to 1 and soon afterwards the gold and silver dollars were fixed as nine-tenths fine, that is, one-tenth alloy and the rest gold or silver, just as they are to-day. The new ratio set gold a little too high, with the result that silver dollars in turn disappeared. The subsidiary coinage law of 1853 reduced the weight of the smaller silver coins, however, so they came into circulation again.

Then came the Civil War and the expenses of the government jumped tremendously. To pay some of these expenses United States notes, commonly called greenbacks, were

issued, first in 1862. They were made legal tender for most purposes. National bank notes (§ 92) were also issued (1863). Now see Gresham's law again. The Treasury would not give good money in exchange for the greenbacks. Their value went down and gold money disappeared. Not until the Treasury was again ready to give good money for the greenbacks (January 1, 1879) did they come up to par with gold.

During the years following 1834 practically no silver dollars were coined, and in 1873 a law dropped the silver dollar from the coinage lists. Very soon after this, vast silver mines were opened in the West, with the result that the price of silver went down. Short-sighted people blamed it on the "crime of '73," and a big call went up for the renewed coinage of silver dollars.

The Bland-Allison Act of 1878 required the Secretary of the Treasury to buy and coin into silver dollars from $2,000,000 to $4,000,000 worth of bullion every month. Silver continued to go down, and the country did not need all these millions of "cartwheels." So the Sherman Silver Purchase Act of 1890 said that the Secretary of the Treasury did not have to coin silver dollars, but had to buy each year 4,500,000 ounces of silver at the market price, paying for them with a new kind of paper money, called "Treasury notes."

Not long after this, business conditions in the country became bad. President Cleveland, thinking that this was due to a fear that the country was going to have nothing but silver money, induced Congress to repeal the purchase clause of the Sherman Act (1893). But times continued to be bad. Throughout the West a noisy demand arose for "the free and unlimited coinage of gold and silver at the ratio of 16 to 1." William J. Bryan made this the great issue of his campaign for the presidency in 1896. He was defeated and in 1900 the present Gold Standard Act was passed, definitely ending the clamor for "free silver."

What was "shinplaster currency"? Why was it issued? What did William J. Bryan mean to imply in his famous exclamation: "You shall not press down upon the brow of labor this crown of thorns. You shall not crucify mankind upon a cross of gold"? Point out the respects in which these allusions were inaccurate. Why would it have been unfortunate if the United States had adopted the free coinage of silver in 1896? Silver was then running at a market ratio of about 30 to 1 with gold. Would it have been well to have established free coinage on a 30 to 1 basis?

The table below shows the different denominations of coins now issued for each metal, and the extent to which they are legal tender.

Metal	Value of Coins	Legal Tender	Amount Coined in Year Ending .....
Gold . . .	$2.50, $5, $10, $20	Unlimited	(To pupil: Fill this in from the latest statistics you can get.)
Silver . .	$1	Unlimited	
	$.10, $.25, $.50	Up to $10	
Copper and Nickel .	$.05	Up to $.25	
Bronze . .	$.01	Up to $.25	

We have had half-cents, two-cent pieces, three-cent pieces, twenty-cent pieces, and twenty-five-cent gold pieces in this country. Why do you suppose we do not have them now?

Since so much of the money in circulation in the country is paper, we ought to know exactly what each kind of paper money represents. We use it for no other reason than that we believe our government is honest and rich enough to do what it says on these pieces of paper that it will do. For some of it there is actual coin or bullion in the treasury to make it good. For more of it there is not.

(1) Gold certificates represent actual gold in the treasury.

(2) Silver certificates are backed up by silver dollars or bullion.

(3) National bank notes are backed up by whatever the bank owns that will be accepted by the government as sound security, largely government bonds. It is expected that soon their place will be taken by federal reserve notes.

(4) Federal reserve notes and federal reserve bank notes. These are put out by federal reserve banks (§ 96) and based on bonds, promissory notes, and other commercial paper that they own.

(5) United States notes, or greenbacks, are nothing but promises to pay and their worth depends on the extent to which people have confidence that the government will and can keep its word. The government supports them by a "gold reserve" of $150,000,000. Since this is very much more than people are ever likely to want to use in redeeming the "greenbacks" at any time, they seem to be perfectly sound.

(6) A small amount in "Treasury notes" issued under the Act of 1890 has never been redeemed at the Treasury, but it is supposed that most of this either has been lost or is in the hands of collectors.

It is easy to discover all this by reading what is said on the face of the paper money itself, and you should do this. But in the following table you will find some facts of importance about the different kinds of paper money.

Kinds	Denominations	Legal Tender	Amount in Circulation
Gold certificates	$10, $20, $50, $100, $500, $1000, $5000, $10,000	Yes	(To pupil: Fill in from the latest statistics you can get.)
Silver certificates	$1, $2, $5, $10, $20, $50, $100	No	
National bank notes	$5, $10, $20, $50, $100	No	
Treasury notes of 1890	$1 to $1000 (Virtually none in use)	Yes, except under specific agreement.	
Federal reserve notes	$5 to $10,000	No	
Federal reserve bank notes	$1 to $1000 (Few in actual use)	No	
United States notes	$1 to $1000	Yes, except for customs and interest on public debt	

Practically all bills below $5 in actual circulation are silver certificates or United States notes.

How is paper money made so as to prevent counterfeiting? In the tables of United States coins and paper money, point out which are standard, representative, credit, and token. Why do you never stop to think whether it is legal tender or not? Is a bank note of any value when it is in the possession of the bank?

Money is essential to business and trade, for barter limits business to actual exchanges of goods directly. Long experience has shown that gold and silver are the materials best suited for use as money, with some other metals for minor coins. Paper money, if properly backed by coin or government credit, has great advantages from the standpoint of convenience. Most countries now make gold the standard of their currency. Gold coinage is usually free to all who offer the metal, but of the other metals our government buys only such amounts as it needs. In each country one finds several varieties and denominations of coins and paper money.

Special Studies

The Mints of the United States
The Making of Paper Money
The Effect of the World War on the Money Systems of Different Countries
Why We have the Particular Coins and Denominations of Paper Money that We Do
A Comparison of the United States Money System with that of Other Countries
A History of the Relation of Gold and Silver in American Currency
Would It be Possible to Work out a Sound Currency System Which Used Paper Money Alone?
Gresham's Law and Its Operation at Various Times

Reference Readings

Adams, *Description of Industry*, Chapter 10
Bullock, *Selected Readings in Economics*, Chapter 14
Carver, *Principles of Political Economy*, Chapter 24
Clay, *Economics for the General Reader*, Chapter 9
Eastman, *These Changing Times*, Chapters 2, 3
Ely, *Outlines of Economics* (Third Revised Edition), Chapter 14
Forman, *Rise of American Commerce and Industry*, Chapters 11, 23, 28
Jennings, *Introduction to American Economic History*, Chapter 17
Marshall and Lyon, *Our Economic Organization*, Study 19

Marshall and Wiese, *Modern Business*, Chapter 10
Munro, *Current Problems in Citizenship*, Chapter 22
Seager, *Principles of Economics*, Chapter 14
Seligman, *Principles of Economics*, Chapters 38, 39
Taussig, *Principles of Economics*, Chapters 17, 19, 20, 21, 23
United States Bureau of Education, *Lessons in Community and National Life*, A–23, C–21, C–23, C–24
Wallace, *Our Debt and Duty to the Farmer*, Chapter 7
Weld and Tostlebe, *A Case Book for Economics*, pages 29–42

CHAPTER X

CREDIT AND THOSE WHO PROVIDE IT

Wouldst thou shut up the avenues of ill?
Pay every debt as if God wrote the bill.

— EMERSON

If I offer you a thousand silver dollars, you will probably take them. But suppose the United States government paid nine hundred and fifty thousand of these silver things for a city post office site. What would the recipient of them say and what would he do with his money? To pay in paper money would cause less inconvenience, but there would still be a big risk of losing it. Money, though a great advantage, as we have already pointed out, may at times be a nuisance. Rather than carry around large sums of money, I will take the promise of a person in whom I have confidence in place of insisting upon the payment of the money itself. Can such transactions take place between nations? If so, how?

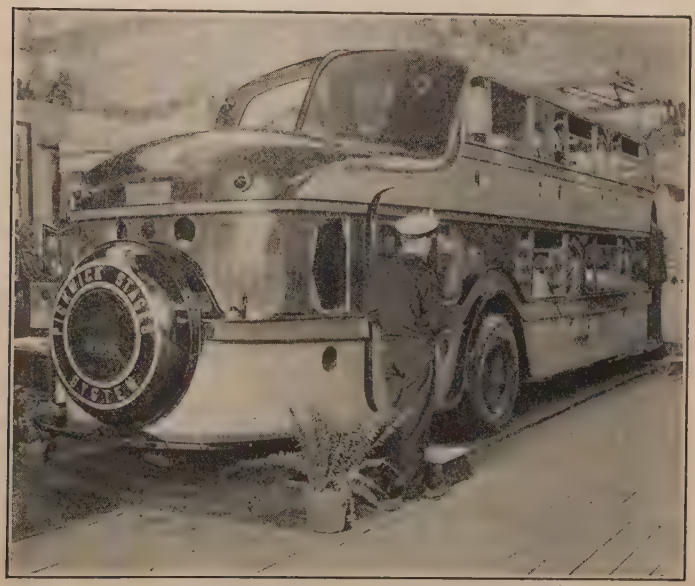
89. Credit and Its Advantages. — The giving or receiving of a promise to pay in place of actual money is called *credit*. It has been estimated that of all the business carried on today, fully 95 per cent — in volume, not in number of transactions — is conducted without the use of actual money. Credit, therefore, renders a most important service in the modern business world.

Among the many advantages in using credit are these:

(1) It avoids much inconvenience in carrying money or exchanging goods.

(2) It saves the precious metals so that they can be used for many other purposes than for money. Paper money does that, it is true, but credit reduces the needed amount of any kind of money.

(3) It permits the carrying on of enterprises on a large scale which would otherwise be impossible. If every payment for work or materials in putting up a department store had to be made in money, and if the enormous stock carried by such a concern in a big city had to be paid for in actual cash, the mere getting together of the money required might



Wide World Photos

ONE OF THE LATEST THINGS IN TRANSPORTATION

This gigantic motor car has all the facilities of the railroad sleepers. It is a Los Angeles product. The transportation business which this car represents is only one of hundreds that could not be carried on without the use of credit.

cause considerable inconvenience. With the use of credit, business transactions counting far up into the thousands of dollars are as simply carried on as buying the morning paper from the newsboy. The larger the transaction, the less likely is actual money to be used.

(4) The use of credit encourages trade between places far apart. If money had to be transported for every transaction

that involved people doing business on both sides of the Atlantic, trade would be far more risky than it is, and much of it would never take place. With credit, it makes little difference whether the buyer or the seller lives in America, Asia, Europe, or Africa, as far as the payment of debts is concerned.

(5) Credit makes possible the safe keeping and investment of small savings. The nickels and dimes which the child puts away in his toy bank and which afterward are deposited for him in a real bank would not be at all welcome to the person to whom the bank loaned the money. But through the use of credit, the bank can preserve everybody's savings, large or small, and by putting them together can offer them in amounts and forms to suit any investor.

90. The Risks of Credit. — It would be too much to expect that a custom having so many advantages would not have any disadvantages. In its simplest form, credit may lead to wastefulness and extravagance. A person who can get credit at a store is likely to purchase things which he does not need and which he would go without if he had to pay cash. Credit also encourages speculation and doubtful investments, when, if a person had to hand over real money at first, he might stop and think before he undertook the risk.

Credit is the basis for installment buying, about the merits of which there has been many an argument. "A dollar down and a dollar a week" has enabled families to get comforts and luxuries which otherwise would never have been theirs. But it has also been responsible for putting into a poor man's home an expensive radio or buffet on which he may make a few payments, only to find himself in a little while unable to meet the additional payments. His failure makes necessary the return of the article to the dealer, and the sacrifice of the money which he has already paid out on the installments.

In what sense is it true that "all trade is barter"? If I say to you, "His credit is good," what do I mean?

Credit depends on the existence of confidence between one person and another. We extend credit to a person because our knowledge of him or his past record leads us to believe that he can and will keep his promises to pay when the payments become due. If a condition arises in any country that makes it difficult for business men to do this, the whole financial system of that country totters. Smith depends on Jones's paying his note July 1. If Jones cannot do it, Smith also may go into bankruptcy.

To relieve some of the embarrassments connected with the use of credit, there are credit associations which have a record of the names of people in the cities in which they are located. They learn about a person's standing in business, his promptness in paying his bills, and other useful information. Any member of the association, before granting credit, can call the association and find out just what the person's record is. Thus some undesirable arrangements can be avoided. Commercial agencies, such as those indicated by the names Dun and Bradstreet, give a definite rating in letters and figures to persons or firms engaged in business.

Is there any good reason why a business man should not pay for goods as soon as he gets them?

91. Forms of Credit. — Probably the simplest and most popular form of credit is that which is called a *charge account* or *book credit*. When you " charge " items to your account with a company, they enter it in their books, and you get your bill at the end of the month. Even small grocery stores and butcher shops do the same thing. You can order goods by telephone, telling the butcher to " charge " it. If you do not pay your bills early in the month following that in which they were incurred, your dealer may not want to continue your charge account any longer. Sometimes a discount of 3 per cent or more is allowed if bills are paid by a certain time. If your bill is $10 and if you pay it before the tenth of the month, for instance, you may then have to pay only $9.70 or even less, depending upon the discount.

Is there anything back of book credit? What formalities, if any, would you have to attend to before opening an account at a store? Do firms ever encourage the opening of charge accounts? Why?

A more definite kind of promise which serves as a credit instrument is the *promissory note*. This is a written promise to pay a stated amount at a specified time. Frequently the place of the payment may be mentioned, and as a rule interest is paid from the date of the note. The person who promises to pay the money is called the " maker " or " payer." The one who is to receive the money is called the " payee."

Promissory notes may be termed *call* or *demand* notes, if they have to be paid whenever the holder of the note requests it. Others may also be *short-term* notes, which commonly do not run beyond sixty days, or *long-term* notes, which do not call for payment until a longer time than that. Often, in order to make the note more secure, some person other than the one who owes the money is also asked to indorse (sign) the note, so that two names may appear upon it instead of one. Then the second indorser must pay the money if the one who owes does not. This is referred to as " two-name paper." There might be " three-name " also. Signing notes for other people is a thing which one should do only when he has absolute confidence in the good intentions of the one who owes the money and in the person's ability to pay it when it is due. Many a man has got into serious trouble because he has been too kind-hearted, on account of some one's real or supposed friendship for him.

A *check* is another very common form of credit. This is simply an order instructing a bank to pay a certain sum to a particular person or to some one else at that person's request. For paying debts owed for anything but small cash purchases, checks are the means most often used to-day. They can be sent easily through the mail and are payable at sight, whereas promissory notes are not usually paid until the time when they are due. Of course a person must maintain a checking account at a bank before he can write out

checks that are worth anything. If you have reason to believe that a check has fallen into improper hands, you can instruct your bank not to pay it when it is presented there (stop payment). If, on the other hand, you knowingly write checks for an amount greater than you have deposited in your bank, you are committing a very serious offense.

Ewing Galloway

DIFFERENT FORMS OF CHECKS

Notice the different arrangements of the items on these various checks, though all really say about the same thing. There has been a considerable movement toward standardization of size and arrangement. The Alpha Portland Cement check has a voucher attached which is to be torn off at the proper time. Many business firms to-day do not send receipted bills when the amount due is paid by check. The check comes back to its maker through the banks and the canceled check is itself considered a receipt.

What do you suppose was wrong with the woman who, when told that she had overdrawn her account, sat down and wrote a check for the amount due? What inconveniences does a check save you? When are checks unacceptable? What is the advantage in travelers' checks? Why are they more acceptable than personal checks? Does a check have to be a printed form? What is a certified check? a cashier's check? Is it worth while to preserve canceled checks?

Another credit instrument is known as a *draft*. It is somewhat like a check in that it is a written order to pay. The

draft, however, is an order written by the seller of goods, or some other person *to whom money is owed*, instructing some one who owes money to pay a certain sum to a third party. This third party quite likely may be a bank and usually is. If you have "drawn on" me, telling me to pay $80 to the Central Bank, that bank will then try to get the money from me. If I live in a different city, it will send the draft to a bank in that city. If I happen to do business with that bank, it can charge the amount due against any money I have on deposit with them. If my bank is not the same one, I shall be advised of the fact that the draft has been made, and then I will probably pay the amount due in cash or by writing a check on my own bank.

There are sight drafts and time drafts. Sight drafts, like checks, must be paid when presented. Time drafts are payable on the date on which they are due — ten days, thirty days, or some other time later. A form of draft that is now more often used in this country than formerly is known as a *trade acceptance*. This is handled in connection with a bill for goods. It permits the seller to discount it and get money on it at once, while the buyer does not have to pay for the goods until a later time. It is "accepted" when the buyer writes that word with the date and his name across the face of the document. A *bank draft* may be drawn by one bank upon another with which it has regular dealings. Banks furnish such drafts for the accommodation of their customers. A draft on a well-known New York bank would be readily accepted almost anywhere, though people who did not know you might be unwilling to take your check.

A *bill of exchange* is another credit instrument of the same type. It is drawn up in somewhat more complicated form and is usually sent in duplicate or triplicate to make sure of the delivery of at least one copy. Bills of exchange are very extensively used in foreign trade and are frequently made out in terms of foreign money.

These forms of credit instruments are not exactly the same as money, although they take the place of it. None of them is legal tender. Unless there is some special agreement to the contrary, a person is not obliged to take any of them in payment of a debt, but most of them can be transferred from one person to another. All that is needed, for instance, in the case of my check is to have it " indorsed " upon the back by the person in whose favor it is made out. Any other persons, firms, or banks handling the check should also put their signature or stamp on it. As soon as it gets back to my bank, the amount of the check will be charged against the money which I have on deposit there. If they know you at my bank, you can of course present the check there and get it cashed directly. But more likely you would deposit it in your own bank, or indorse it and pass it on to somebody else.

A note may be " discounted " at a bank the day it is drawn, even though it may not come due for some time. In that case the bank deducts interest on the note up to the time when the note falls due and gives the holder of the note what is left after this " discount " is taken off. Some banking firms sell drafts or bills of exchange in practically the same way that another firm might buy and sell clothes or apples.

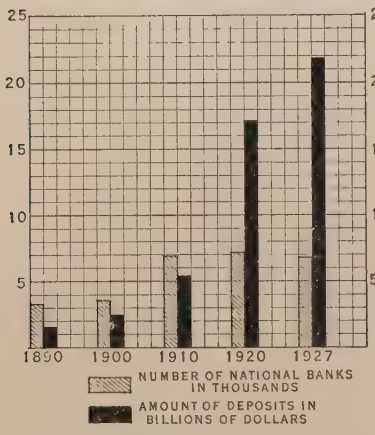
Why should a person want to discount a note before it was due if he got less for it than if he waited? If I gave you a check for $100, in what four ways might you handle it?

What is the advantage in having arrangements for credit in writing rather than oral? Is credit ever given orally? Get as many specimens of these different forms of credit instruments as you can.

Stocks and bonds might also be listed as forms of credit instruments, for they are passed to one person from another without any assurance, beyond what is written or printed on them, that any actual money or valuable property is represented by them. A bond is nothing but a form of promissory note, while stocks are simply evidence that the original holder

is supposed to have invested some money in a business and is therefore entitled to get returns from that investment if the business is profitable.

92. Banks and Their Importance. — We have mentioned banks a number of times. We took it for granted that everybody knows that banks exist and they have something to do with money matters. But we ought to know more than that about these valuable institutions.



National Banks in the United States

Notice the immense increase in bank deposits since 1910. Observe that the number of banks seems to be even less to-day than in 1910. How can these two facts be reconciled?

We may define a *bank* as an institution which receives and lends money and renders other services to its customers, and which is chartered as a corporation under the laws of the state or the national government. Individuals may carry on some phases of a banking business without getting a charter from anybody, but their importance is not now very great in states which have good banking laws.

National banks are subject to special supervision from the agents of the national Treasury Department, and in the past have been allowed to issue paper money which was backed up by government bonds or some other security owned by the bank. The national government put such a high tax on paper money issued by state banks, that they did not find it profitable to issue it. National and state banks are both commercial banks, performing many kinds of service in connection with trade and business.

Many banking institutions, under state charters, may carry on other kinds of business than that to which a national bank is limited, such as looking after estates and making investments of money or rendering other financial services. Such institutions are sometimes known as trust companies. Do not confuse the word "trust" with another use of the word which we have seen before (§ 63).

Savings banks which make a specialty of receiving small deposits and employing them in investments of a longer term than an ordinary bank can safely use, are also common. This is one of the reasons why the savings banks reserve the right to require you to give advance notice when you want to withdraw any considerable amount. Often a national bank has a savings bank associated with it.

A bank not only is chartered like a corporation, but is operated in much the same manner. There are a board of directors, a president, one or more vice presidents, one or more cashiers, and numerous other officers and clerks. Stock is issued and sold. Sometimes stock in a new bank does not have to be fully paid by the stockholders at once, and it may be that the balance will never have to be paid if the bank does not need it. Stockholders, however, are liable for twice the par value of their stock if it is necessary to pay it to meet the bank's obligations.

Banking institutions chartered under state laws are subject to supervision by state examiners in the same way that national banks are subject to national supervision. In the modern business world a tremendous power rests in the hands of the banks. The country's banking system safeguards the business prosperity of the nation. If the banking system is safe and well managed, the country's business can pass through considerable strain and not suffer seriously.

In any particular community, the banks may wield much influence financially. Perhaps, for instance, a man wishes to start a new business and needs to borrow money to use in it. If the banks are willing to lend him money or credit, he will

be enabled to go ahead with his plans. Suppose, however, they refuse to do so. Then he may go to other people and ask them for aid; if they find out that the bank has refused to lend to him, they may become suspicious and be unwilling to risk their money. It is hardly too much to say that the banks of a community can make or ruin a man's chance for doing business in that town. Big banks, too, in the larger cities, have such a position of strength that they can drive the small ones out of business if they wish.

We need not fear that banks are going to use this power in any unreasonable way. It is usually to the interest of a bank, be it large or small, to have as many friends as possible. Within the limits of safety, banks are therefore likely to render all the service they can, rather than to make needless enemies by ungenerous or dishonorable dealings with individuals or with other institutions. Banks occasionally fail through the dishonesty of some trusted cashier or through somebody's mistakes in management; but the number of failures in the entire list of banking institutions is so small that one need have little fear about losing the money which he deposits with any bank. It is surely safer in a bank than in the attic or cellar at home.

Find out who stands the loss in case a bank's cashier steals funds. Under the laws of your state, just what steps would have to be taken in order to organize a new bank?

If you deposit a certain ten-dollar gold piece at a bank, will you get it back? You may get a gold piece back, but it would be a remarkable coincidence if it were the same one. Your money and my money and John Smith's money all go into a common fund. Gold, silver, and paper are sorted for convenience in counting and handling, but your money looks like everybody else's when it is piled up.

Most of the *money* you leave with a bank may be handed out again in cashing checks, and the like. But if you deposit a check, it becomes an item entered on the bank's account

books, and the check passes on to the bank on which it is drawn. Out of the funds represented on its account books the bank makes loans to people whose record and financial standing is such that there is full probability that the loans will be repaid. Sometimes a bank seems heartless when it refuses to lend to an honest man who has no security to offer,

THE INTERIOR OF A BANK *Ewing Galloway*

The desks of the bank's executives are at the right. Each teller or clerk may transact a certain kind of business at his window, or some other convenient arrangement may be followed. At certain hours many more people would be doing business than are shown in this picture.

but it must protect itself and its depositors. The honest man might get sick or die, and then how could the bank get back what it had lent him?

We have mentioned the lending of credit. What does that mean? If you borrow any considerable amount, the chances are that you won't want much in cash, but will prefer to write checks in paying others what you have borrowed. So the bank will simply credit you on its books with $1000, we will

say, and you will write your checks against that entry. Meanwhile, it charges you 6 per cent interest on the $1000 that it has not given you — giving you instead an entry in bookkeeping.

Promising business, this lending of credit! But right here the sensible bank is cautious. Even banks may overdo the use of credit. If the time should come when any considerable number of people should ask for actual cash, as a result of loans of this kind, the bank might find it impossible to meet the demands and might have to close its doors either for a time or permanently. No bank undertakes to keep on hand more than 15 to 25 per cent of the money which has been deposited with it. Seldom is anywhere nearly as much as that asked for at any one time, but it is well to play safe. Just let the notion get abroad that the bank could not meet the demands for a return of its depositors' money! No World Series jam for admission could beat the crush of depositors at the bank's door.

93. What Banks Do. — Let us mention some of the many things which commercial banks do. (1) They receive money and keep it for people who have no safe place of their own.[1] On this they usually pay interest, if it is left for a considerable period, but most banks do not pay interest on those checking accounts which may vary greatly in size from day to day. (2) They lend money or credit. Of course they charge interest on it and thereby make a profit which enables them to carry on their business. (3) They maintain checking accounts, they discount notes, they sell drafts and bills of exchange, and offer other financial conveniences to their customers. (4) Trust companies and private banking institutions, as we have seen, may look after estates, administer wills, and render other services for which they make a charge.

[1] The Midland Bank of England, the largest bank in the world, has deposits of over £2,000,000,000, nearly $10,000,000,000 in United States money.

(5) Sometimes they render special service of high value, without any financial profit to themselves. That was the case in the World War when they helped the government in the sale of Liberty Bonds and War Savings Stamps, and in many other ways.

How does a bank safeguard its funds? By lending money for relatively short periods — not over sixty days for the most part, except in the case of savings banks, and distributing its loans so that the amount coming back into the treasury when they are repaid is reasonably constant. Also by keeping in reserve all the time more than enough funds to meet any probable demands.

In doing this, the bank finds the Federal Reserve System (§ 96) very helpful. Suppose it needs to get a little more cash for ready circulation. It will turn over to the federal reserve bank some bonds or other commercial paper that it holds, and that bank will send it some federal reserve notes to put into circulation. When the special need for extra currency has passed, the notes can be returned and the local bank's bonds brought back.

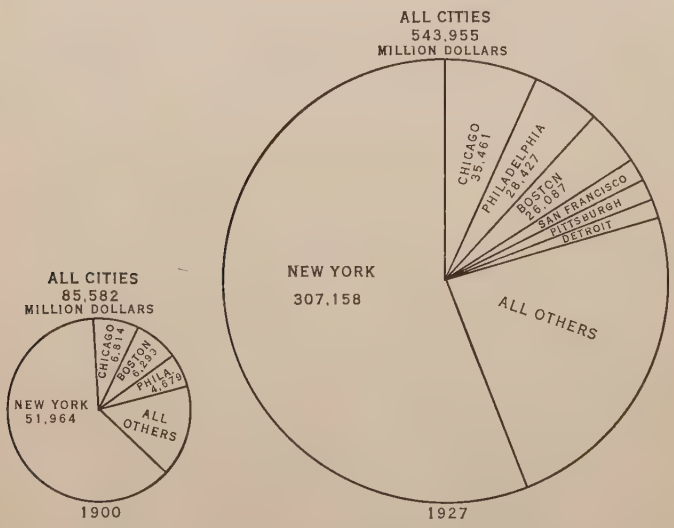
Besides, there can be a "rediscount" of notes which the local bank has taken in and is holding until they are due. These can, if desirable, be turned over to the federal reserve bank, which may give the local bank the face value of the notes, less its own discount charges. As the federal reserve bank might be charging the local bank only $3\frac{1}{2}$ per cent or 4 per cent discount, while the local bank would probably charge 6 per cent, the local bank would get a little profit out of the deal besides obtaining funds to strengthen its reserve or to put into circulation.

When you say, "I have $500 in the bank," just what do you mean? Who pays the cost of operating a bank? What might cause a bank to fail?

Interpret each item in the bank statement on page 253. If you don't fully understand why certain items are in one column rather than the other, ask your bookkeeping teacher to help you. How many of the items in this statement would be affected by each of the

following acts of John Smith, a depositor, and in what way: cashing a check for $100; depositing bond coupons to the amount of $200; borrowing $1000 on a 60-day note?

94. The Clearing House. — In a large city there are dozens of banks. To require each one of these to carry on a direct exchange of accounts with every other in the handling of checks and other forms of commercial paper would cause



Bank Clearings in Cities of the United States

The sizes of the two circles show the relative volume of business in the years mentioned. Notice that while New York still has more than half the entire amount its margin is not so large in 1927 as in 1900. Can you offer any explanation?

an unendurable confusion and nuisance. At the same time, such procedure would make it unsafe to permit the accounts between banks to remain unsettled for any long time.

To make frequent settlements not only possible but easy, the clearing house has been established in all our largest cities. The smaller banks are represented in the clearing house by some of the larger ones, and transact their dealings through the larger banks. The large banks of a city are

REPORT OF THE CONDITION OF

CITY DEPOSIT BANK AND TRUST CO.,

Located at Penn and Center aves., Pittsburgh, Penna., as of the 31st day of December, 1928:

RESOURCES

Reserve fund:		
Cash, specie and notes	$ 233,476.00	
Due from approved reserve agents	1,127,520.87	
		$ 1,360,996.87
Nickels and cents		1,468.91
Cash items		11,313.99
Exchanges for clearing house		223,836.40
Bills discounted:		
Upon one name		235,274.57
Upon two or more names		1,588,481.45
Time loans with collateral		812,329.52
Call loans with collateral		943,569.95
Loans on call:		
Upon one name		264,953.78
Upon two or more names		1,012,186.70
Loans secured by bonds and mortgages		6,924,380.34
Bonds		5,457,320.17
Stocks		124,080.00
Bonds and mortgages owned		693,510.10
Office building and lot		616,699.50
Furniture and fixtures		78,166.55
Other real estate		60,550.48
Overdrafts		886.63
Total		$21,410,006.00

LIABILITIES

Capital stock paid in		$ 1,000,000.00
Surplus fund		1,000,000.00
Undivided profits, less current expenses and taxes paid		567,452.71
Reserve for depreciation		110,000.00
Reserve for interest, taxes and expenses		167,498.31
Demand deposits:		
Deposits subject to check	$6,149,218.11	
Certified checks	15,031.47	
Cashier's or treasurer's checks	69,230.08	
		6,233,479.66
Time deposits:		
Time certificates of deposit	192,803.60	
Special time deposits	29,074.00	
Time savings fund deposits	11,337,662.52	
		11,559,540.12
Due to banking institutions, excluding reserve		1,887.20
Dividends unpaid		20,148.00
Bills payable on time		750,000.00
Total		$21,410,006.00

TRUST FUNDS

Mortgages	$ 68,000.00
Other investments, etc.	395,656.00
Cash balance	384.41
Overdrafts	1,007.20
Total trust funds	$ 465,048.51

Commonwealth of Pennsylvania, county of Allegheny, ss:

I. R. O. Fulton, cashier of the above-named institution, do solemnly swear that the above statement is true to the best of my knowledge and belief.

R. O. FULTON, Cashier.

Sworn and subscribed to before me this fourth day of January 1929.

IDA L. SHERRER, Notary Public.

Correct — Attest:

H. W. LUDEBUEHL,
GEO. E. BENSON,
S. W. MEANS,
Directors.

A Bank Statement

At irregular intervals banks are inspected by state or national inspectors, depending on the kind of bank, and are required to publish statements showing their financial condition.

always members of the clearing house. At the clearing house, each business day, the returns from each banking institution are balanced up. Checks, drafts, and the like, which have been made out on the different banks, may be turned over to the proper institutions, and accounts balanced up simply and easily.

Sometimes, too, when a bank gets into a little difficulty, the clearing house will cause money to be loaned to the bank to tide it over its temporary embarrassment. In this way, a bank may be saved from closing its doors and thus causing great inconvenience to the people of the neighborhood. Occasions of that character do occur at times even though the bank has been well managed.

The bankers in any community usually have correspondents in larger places, and when they have checks to return from one city to another or payments to make or other transactions to perform, they make use of their special correspondents.

Does your city have a clearing house? Is your bank a member of one? Trace the travels of several checks, as indicated by signatures on the back.

95. Banking in the United States. — We had no banking *system* in the United States until 1863, and none was thoroughly organized until fifty years after that. True, there was a United States Bank, founded at Alexander Hamilton's recommendation in 1791, whose charter ran out in twenty years, and a second United States Bank, which was in operation from 1816 to 1836 and which was given its knock-out as a semipublic institution by Andrew Jackson. But neither of these had any direct relationship to the local banks of their day.

In the old days almost anybody who had a little money himself and felt like opening an office could start a bank. Neither the states nor the national government offered any method of inspecting or controlling them. "Wildcat"

banks issued paper money with not even a reputation behind it. The condition of the banks and of the country's paper currency was bad for more than half the nineteenth century.

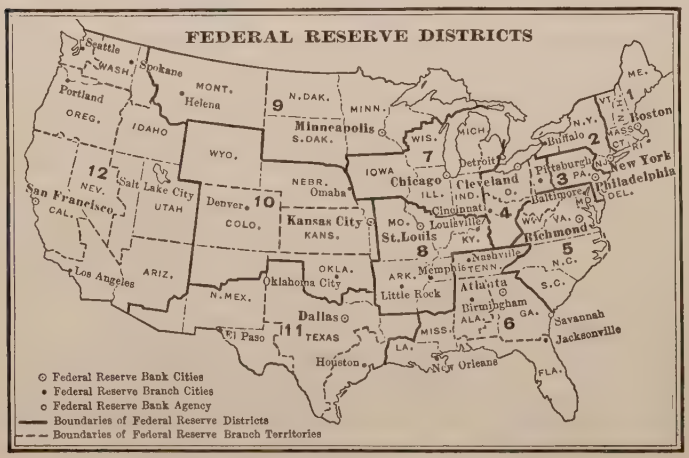
Our present national bank system arose out of the trying times of the Civil War. For the Act of 1863, which began the system, Secretary of the Treasury Chase was largely responsible. It provided for the organization of local banks under the supervision of the national government, and gave them the right to issue bank notes if they owned government bonds with which to back them.

These national banks gave a steadiness to our country's financial system which was much needed. But still some serious criticisms were offered. One of these was to the effect that the bank notes were not so helpful a sort of currency as we should have. It was a somewhat prolonged process to get the notes issued and in circulation. Besides, we wanted an *elastic* currency; that is, one so planned that more money could be put into circulation when the country needed it, and the surplus readily withdrawn from circulation when business conditions require less. The very fact that the national bank notes were backed by government bonds made them one of our surest kinds of money. So when any disturbance to the country's finances occurred, people held on to these notes as tightly as they did to gold and silver. Gresham's law again!

College professors, congressmen, and special commissions made numerous studies and recommendations with the idea of improving the situation. Every intelligent student argued that some sort of centralized control had to be set up, but the farmers were always suspicious of anything that looked like "domination by Wall Street." In the first year of President Wilson's administration (1913) the famous Federal Reserve Act was finally passed.

96. The Federal Reserve System. — The Federal Reserve Act of 1913 reorganized the country's entire system of bank-

ing and paper currency. It is often known as the Glass-Owen Act, since the gentlemen of those names were the chairmen of the Congressional committees which dealt with the matter. It was decided, instead of having one central bank for the entire country as some had recommended, to have reserve banks distributed in the different sections, but under such a system of control that they could be employed as a unit when necessary.



MAP OF FEDERAL RESERVE DISTRICTS

The cities which have the reserve banks are shown by the encircled dots. Dots show the location of federal reserve branch banks. Which district are you in?

At the head of the system, as we now have it, is the Federal Reserve Board. This is composed of the Secretary of the Treasury, the Comptroller of the Currency, and six other persons appointed by the President. One of these must be a so-called "dirt" farmer. They have general supervision over the entire administration of the banking system. The country is divided into twelve reserve districts, in each of which there is a federal reserve bank in one of its important cities. (See the map.) In other important cities of the dis-

trict, branch banks may be established. Each reserve bank is managed by a board of nine directors, three of whom are chosen by the Federal Reserve Board, and the others by the banks in the district. Every national bank was required to join the system or give up its charter as a national bank. Banks chartered under state laws were permitted to join and many of them have done so.

The reserve bank in the district does not carry on accounts with individual depositors, but deals with the local banks in the same way that the local bank deals with individuals. It is "a bank for banks." It issues paper money, it rediscounts notes, arranges for transfers of funds from one bank to another, and in many ways makes safer and easier many kinds of transactions which a bank is called upon to perform. It handles the government's own funds, and keeps the gold that belongs to the government. The reserve banks also act as clearing houses for the local banks. The system was rather thoroughly tested soon after it was established, when the emergency produced by the World War came suddenly upon the nation. It met the test admirably.

It seems as if we have secured the centralized control which is desirable in order that any business may be satisfactorily managed; and at the same time we have avoided the danger that might come from having New York or some other one city exercise too great influence over the country's financial structure. If for some reason or other more funds are needed at some particular time in one part of the country, the Reserve Board can arrange for the necessary transfers. In all probability the action which should take place in a case of that kind would prevent panics such as have caused so much trouble in the past.

The rediscount feature of the Federal Reserve System is important. We have noticed that local banks may wish to get more funds to put into circulation or to strengthen their reserve. Then they may turn over to their federal reserve bank notes which they have already discounted and have

them rediscounted by that bank. If the Federal Reserve Board feels that business is being boomed unhealthily in any district, it may raise the rate of interest it charges for rediscounting. Then the local banks will have to raise their own discount rates to the same extent in order to render this service without loss. Men who want to borrow money by means of discounted notes will not then do it so easily if they have to pay a higher rate, and business activity may have to quiet down a little. The opposite policy might be followed if it seemed desirable to encourage business operations. If a District Board used poor judgment in handling this matter, considerable inconvenience to business might result. At any rate the currency system of the country has been made much more elastic by this added means of adjustment.

Where is your Federal Reserve Bank situated? Where are its branch banks? Be careful not to confuse it with the Federal Farm Loan Bank, which is a part of an entirely different system. In a time of business depression, what might the Federal Reserve Board do to relieve the situation?

97. The Federal Farm Loan System. — Farmers find it more difficult than people in business in the city to get loans to help them over a difficult time or to use in making improvements. They are out of touch with the big business centers, and people of those places do not care to take the chances that might be involved in lending to farmers. Farming is often a rather speculative enterprise. Besides, the farmers often want to borrow money for longer periods than bankers usually care to lend it.

To relieve this situation, the federal government in 1916 organized a Federal Farm Loan System. It is handled by a Federal Farm Loan Board composed of the Secretary of the Treasury and six other persons appointed by the President. The country is divided into twelve districts with a Farm Loan Bank in each district.

The farmers in any particular neighborhood may organize an association which will deal with the bank in their district, and which will lend money to farmers who will actually use it in raising or disposing of their crops or in making improvements on the farm. In return they must give a mortgage on their property, and if there is already a mortgage on their property, the money borrowed from the loan association must be used first to pay off the old mortgage. This plan has furnished relief to farmers who had been handicapped by their distance from the men who have money to lend.

Where is the Farm Loan Bank in your district? How much territory is included in that district?

Further aid was afforded by the Agricultural Credits Act of 1923. This set up an Intermediate Credit Bank in each district with branch banks which may lend directly to individual farmers. The Intermediate Credit Banks may also lend to other banks.

98. The Stock Exchange. — Some banking corporations and investment houses buy bonds in large amounts when some big enterprise borrows money to start something new or to extend its activities. These banking houses then sell the bonds to any one who will buy them. When the bonds seem to be absolutely safe, they are frequently taken for investment by insurance companies and by savings banks, as well as by private individuals. There are also brokers who make their living by buying and selling stocks for other people.

Brokers, in the large cities at least, meet daily at a place known as the stock exchange. At the stock exchange are listed most of the different kinds of stocks and bonds which are frequently bought and sold and which are considered sound and safe.

It is a great convenience in many respects to have such an institution. It often happens that a person who has invested money in some stock may wish to sell because he needs the

money for some special reason. He must then find somebody who is willing to buy the stock. Unless he does a considerable amount of this kind of thing himself he may not know where to go. Here is where the brokers make themselves useful. By means of the stock exchange they are able to find purchasers for stocks and bonds which their clients may wish to dispose of.

Keystone View Company

THE NEW YORK STOCK EXCHANGE

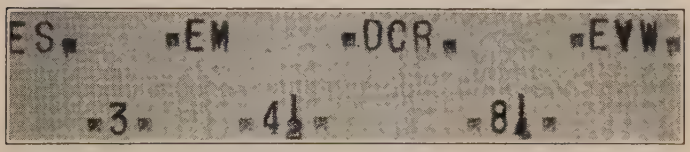
An enormous volume of business is transacted here each business day. It might almost be called the investment center of the United States.

The stock exchange also renders a service in making it possible to know the financial standing of particular securities at any time.[1] People who wish to make investments or to sell securities that they have are guided by the reports of dealings on the stock exchange which are printed in the daily newspapers. The New York stock exchange is an institution of great importance to the financial interests of the country. Seats (memberships) in the stock exchange can be bought only by the payment of a considerable sum of money.

Stocks which are of uncertain character and which represent more speculative enterprises are not listed on the stock exchange, but are bought and sold at what is known as the curb market. Until a few years ago, any one who visited Broad Street, New York, between eleven and twelve o'clock

[1] The New York Stock Exchange has over 1100 securities on its lists (1929). The London Stock Exchange has over 4000.

of a business day, might think he had fallen in with the inmates of an insane asylum. But the people who were engaged in shouting and making peculiar motions were offering for sale and sometimes selling or receiving bids for stock in various enterprises. Now this " curb " business is done under cover. A person who invests in stock of this character must run a great deal of risk. Sometimes he makes a big profit and the chance for doing so is sufficient to make him run the risk of loss.



TICKER TAPE

Little paper tapes like these are constantly pouring out of the tickers in brokerage houses in every large city. The machines are operated by telegraph. The letters are abbreviations indicating the different stocks that are sold. The figures indicate the price at which the sale took place. Except where there is danger of confusion, only the last integer and the fraction, if any, are printed. 4½, for instance, might mean 44½, 104½, or some other corresponding number. People who are following the stock market closely could easily tell which was meant.

This fact suggests the evils which grow out of deals in stock and which people sometimes, through ignorance, connect in their minds with the stock exchange itself. Stock gambling consists in buying or selling stock on margin (§ 148) on the chance that it will advance in price and thereby enable the investor to get rich with little effort. It is altogether too common and has led to many disasters among people who did not realize what they were getting into. There are also men who make a living, not by rendering any actual service to the public through buying and selling stock for people, but by bringing about, by artificial means, a decline or rise in the value of certain stocks so that they can buy or sell to advantage. Among these operators the *bulls* boost the price of certain stocks; the *bears* try to force it to go

down. There can be no justification, economically, for this kind of thing.

Would it be of any advantage to you personally to read the market reports in the newspapers? Study the reports in yesterday's paper to see if you can find the explanation for the various terms used in them.

AN INSIDE VIEW OF THE NEW YORK CURB MARKET

This is a much different scene from that regularly occurring in Broad Street in the old days.

99. Paying Debts between Nations. — Credit has even extended across the sea. We have already noticed that if it were necessary to send money back and forth from one nation to another, it would be a serious hindrance to international trade, even when two countries border each other and are so much alike as the United States and Canada. Different countries use different coinage systems and are not very anxious to consider each other's money as good as their own. This condition is, to say the least, inconvenient in international trade. Most payments from one country to a for-

eign country therefore are made in the form of drafts or bills of exchange, or in the case of small sums, by international money orders, express orders, bankers' association checks, and the like.

If I owe money to Mr. Percy Wilson in London, I may obtain from a banker in New York, or some other large city, a letter of credit drawn on some London banking firm and then send it to him. He will deposit it at his bank or present it directly to the firm upon whom the letter of credit is drawn and get his money. This London institution will then enter it on its accounts against the banker in New York or elsewhere who sold the letter in the first place.

If Mr. Wilson had sold me some goods, the matter might be handled in this way: He might make out a bill of exchange instructing me to pay $1000 to his bank in London. Then he might attach to this bill of exchange the bill of lading and other papers which showed that the goods had been shipped, properly insured, and get the bill discounted at his bank. His bank would then send the documents to the bank which was its correspondent in New York. That bank would then get in touch with me. As I could not get the goods without the bill of lading, I would pay the bank $1000 and get the necessary papers.

Sometimes gold, usually in bars, is sent from one country to another, but to do so is risky and troublesome and it is done only under exceptional circumstances. Before the World War, trade between this country and European countries was most often carried on by the use of bills of exchange drawn on London. These, because they were usually expressed in pounds sterling, were known as *sterling exchange*. The standard figure at which the pound was reckoned in our money was $4.8665. This is known as the *par of exchange*. If, by reason of some special conditions, the rate of exchange should go about three cents above or below this figure — that is, if the relative value of the pound and the dollar should change to that extent — it would be cheaper for one party or

the other to pay the freight and insurance charges necessary to ship gold. The points at which this becomes true are known as the *gold points*. The charges made by bankers for their work in handling bills of exchange will therefore be low enough to keep inside the gold points, for if they should charge any more, people would ship gold, and bills of exchange would not be used at all.

Wide World Photos

A Rubber Gatherer at Work

Rubber is a comparatively new item to figure largely in trade between nations. Paying this man's wages may involve the use of international credit.

As a result of the World War, the whole system of foreign exchange was seriously disturbed. At first gold was shipped here in large quantities, but before long European countries had no gold to send to the United States to pay for the goods they were buying.[1] The only recourse left to them was to ask for extensions of credit in the United States. That is, they virtually borrowed large sums of money here; but instead of actually taking cash out of the United States, they simply obtained credit on the books of American bankers, and then paid for the goods they bought here by checks or drafts drawn against this credit. Sometimes a

[1] Since there was some uncertainty as to whether the English paper money would be made good after the War, the value of the English pound in paper went far below the lower gold point — a fact which might, if not explained, seem to contradict our explanation of the gold points.

debt owed by foreigners can be paid by turning over securities, such as stocks and bonds that they own.

Be sure to understand that in speaking in this section of one country's owing money to another or paying debts in another country, we usually do not mean the government of the country. We have spoken of private citizens engaged in foreign trade as if they were the country. The governments of Great Britain, France, and other European countries did borrow from the United States government during the War, but the obligations which they incurred in that way are not what is usually meant when we speak of paying debts between nations.

100. "Creditor" Nations. — At one time it was common to think that a nation which sold more goods than it bought was doing the right kind of business. This was spoken of as a "favorable balance of trade," and public men advocated the enactment of laws that would encourage the sale of goods abroad and discourage the importing of them. This was a feature of the so-called *mercantile theory*. This notion overlooks the fact that most trades are a benefit to both sides; otherwise they would not be made. Another error of the "mercantilists" was in thinking that a country's riches were measured by its stock of gold and silver, and that a country ought to pile up as much of these metals as it could. But what good would it all do them? Gold itself cannot satisfy many of the wants of man. Its chief value is in what you can get with it.

No nation can indefinitely do business on men's promises or borrowings. It cannot buy unless it has something with which to buy. Of course it may pay its obligations by goods or services or money. But other nations in turn will not sell very long to the nation which does not pay for what it gets. It is therefore entirely out of the question and an economic fallacy for a nation to think that it can forever sell to other people more than it buys from the rest of the world.

That a nation imports goods in large amounts does not always prove that it is therefore getting in debt to other countries. England imports enormous quantities of foodstuffs and raw material, but in doing this it has not been going into debt economically all the time. Other nations have to pay for the services that English ships render to the rest of the world in carrying their goods. This compensation helps to balance a part of England's outlay. Besides, many of the goods that are brought into England have been produced through the use of English money invested in other countries, and it surely does not impoverish a nation as a whole when one Englishman pays another for goods that have been produced by English capital, wherever it may have been invested.

Another explanation of the fact that some nation, as England, may continue year after year to buy more from the United States than she sells to the United States is in the fact that to many other countries England sells more than she secures from them. The United States buys more from Japan and from Brazil than it sells to those countries. If Japan and Brazil buy more from England than they sell to England, they can pay to England the surplus which comes to them through the United States, and England in turn can use this balance to pay what she owes to this country. If I owe Smith a dollar, and he owes Wilkins a dollar, and Wilkins owes me a dollar, I can pay my debt and the dollar bill will come through the others' hands back to my pocket where it started from. Such transactions are called " three-corner exchange," but there are often more than three corners in them.

International trade does not operate quite so simply as might be suggested by the examples we have given, but the principle is the same, even though six, ten, or twenty nations may be engaged in trade among themselves. The balance in favor of one nation and against another may be offset by some other international balance somewhere else in the system. The total amount bought by all nations must equal

the total amount sold by all nations. In the long run one nation will sell to the rest of the world an amount virtually equivalent to what it buys from them.

101. Visible and Invisible Trade. — Our foreign trade does not consist merely of gold or other goods carried one way or the other across the ocean or into Canada and Mexico. These two items are the *visible* items in our imports and exports.

The *invisible* items are much more numerous, though not necessarily so great in total volume.

(1) *Investments abroad* amount to the same thing as buying goods abroad, for the money or something to represent it goes abroad. Before the World War, Europeans had invested much money in American business. Since the War the movement has been the other way, and Americans have bought many millions of dollars' worth of French, German, Italian, Japanese, and other foreign bonds. It used to be said that the United States was a " debtor " nation because we owed money to the European holders of American bonds. Now some call us a " creditor " nation because other countries owe Americans so much.

(2) *Interest payments* to foreign investors also make up a considerable item. These go in just the reverse direction from the last item. Payments to Americans of interest on loans in France or Germany are the same in effect as shipping goods here.

(3) *Repayment of the principal* of these loans must come some time. When it does occur, it is an invisible item.

(4) *The expenditures of tourists abroad* are equivalent to the sale of goods or services by foreigners. Americans are going to Europe every summer now by the thousands and leaving large sums behind when they return. It has been said that American tourists are paying Europe's war debts to the United States. But what of it — if Americans get some fun and enlightenment in the process!

(5) *Freight charges* paid to foreign ship-owners for carrying goods are payments for service which have the same effect as buying goods from them. The Dutch, the English, the Norwegians, and the Swedes obtain much income in this way from other peoples.

(6) *Services of bankers, brokers, and insurance agents* in connection with foreign investments, shipment of goods, and

THE FASTEST LINER IN THE WORLD

This is the *Bremen* of the North German Lloyd line on its first trip to New York, when it set a new speed record for the transatlantic voyage. It is one of many ships that carry Americans to and from Europe, especially in the summer season. Rates and accommodations have been so arranged that people who are by no means wealthy can make the trip.

fire, marine, and every other conceivable kind of insurance count up to a considerable item.

(7) *Money sent or carried home* by immigrants is as truly paid to foreigners as if goods were bought from them.

All these and other invisible items of international trade count up to a very notable figure. In almost every instance the present state of affairs is such that the inhabitants of the United States pay to other people in money

much more than the people of other countries pay to Americans. That is one reason why for so many years our visible exports can keep on being so much greater than our visible imports. The heavy balance on the invisible items is in the other direction. A very large part of all foreign trade, perhaps seventy-five per cent of it, is balanced unconsciously. Sending gold or money from one country to another ordinarily makes only a small fraction of the payments which have to be made for goods or services.

Is the lending of money by Americans in Europe likely to increase or decrease the good will of Americans toward Europeans? Is it likely to promote or hinder world peace?

Credit does much more of the country's business than money. But without money there could be little credit, for credit always talks in terms of money. It includes many forms — book credit, promissory notes, checks, drafts, bills of exchange, and trade acceptances. Banks are the chief agencies for handling these credit instruments. They also make loans to their customers and assist in the circulation of currency. For many years we had no real banking system in this country, but in 1913 the present Federal Reserve System was provided for by law. There is also a Federal Farm Loan System to give special opportunities to the farmers. Credit virtually makes modern large-scale business possible, but its very advantages need to be guarded against abuse. Both individuals and banks must avoid such use of it as will encourage extravagance, recklessness, and speculation.

Credit transactions can take place between nations with only a little more difficulty than in a single community. The great variety of goods and services that enter into international trade makes possible a balancing of international accounts without the necessity of much transportation of gold or money.

Special Studies

The Operation of a Federal Reserve Bank
The Organization and Management of a Commercial Bank
The Federal Farm Loan Board and Its Work
The New York Stock Exchange (or a Local Stock Exchange)
The Clearing House in ———
Our Present Federal Reserve Board
The Bond Salesman — a Parasite or a Producer

The Banking Laws of Our State
The Invisible Items of Foreign Trade
Forms of Credit Used by John Smith, Wholesale Grocer

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CHAPTER XI

MARKETS AND PRICES

The social problem, then, is the problem how to organize life so that each honest worker shall have the natural social resources for living a complete life.

— MARKHAM

Now that we know something about the machinery which men use in buying and selling goods, let us try to find out some of the reasons why men pay a certain amount for the things they buy rather than some other amount. Over how wide a range does buying and selling take place? What influences affect the amount of a commodity that can be bought and sold at a gain and the price it will bring? Considering how often we mention prices in business and at home, they must be one of the biggest factors in our industrial life.

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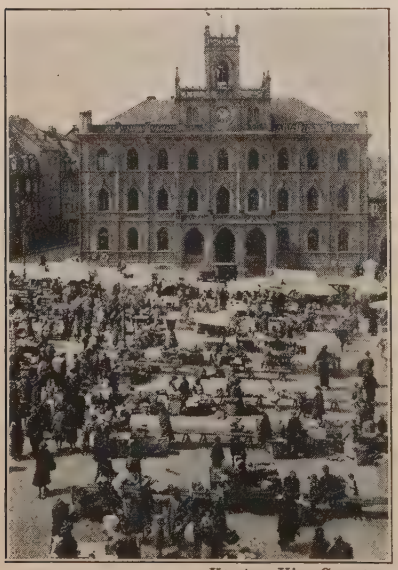
102. Markets. — You may think of a market as a butcher's shop or a place where vegetables are sold, but it means more than that. We used to define a market as a " meeting place for buyers and sellers." This is still true to a certain extent, except that it is no longer limited to a place, and the sellers often do not meet the buyers. When you buy things in a store, you actually meet the seller, but if you send for some commodity through the mail or telephone for it, you do not. A suitable present-day definition of a market for purposes of economics would be " a region within which trade in certain commodities takes place."

We sometimes use the word rather loosely. " The hog market " includes everybody who is interested in buying and selling hogs. " The Pittsburgh market " includes everybody who buys in Pittsburgh or is connected with business operations there. " The winter market " includes everybody who is interested in the sale of goods to be used in the winter season. All these phrases, however, refer to people

who have some interests in common, and in each group uniformity in style and price of goods of the various grades tends to develop.

Markets may be local, national, or world-wide. *Local* markets are those of a limited area, centering in a particular commodity. Street-car checks have a local market, since they wouldn't be valid in any city but the one where they are sold. Theater tickets also have a local market. A ticket for a theater on Broadway would not admit you to a Chicago theater, and only people living in the neighborhood of New York or going to visit there would be likely to buy New York theater tickets.



Keystone View Company

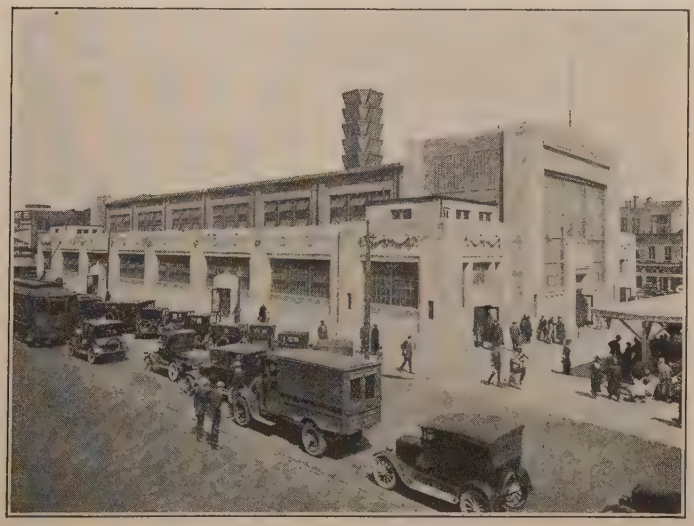
THE WEEKLY MARKET AT WEIMAR, GERMANY

In many German cities there is a public square in front of the city hall, as here, which is used at regular times for such purposes as this. This obviously is "a meeting place of buyers and sellers."

National markets are those which include people living anywhere within an entire country. The corner grocery may be the center of a local market, a big mail order house the center of a national market. American flags have a national market, since most of our flags are sold within the United States. A textbook such as this has a national market rather than anything bigger, because it is written from an American point of view. The price for goods that have a national market tends to be the same for the same grade of goods

everywhere in the country, subject to such additions as may be required for long-distance transportation and the like.

A *world* market is one which stretches all over the world. Some products can find a sale anywhere. You can hardly find a civilized community where the people do not eat something made from wheat. Iron, copper, wool, cotton, and sugar are used wherever any but the most primitive nations



A New City Market

This is at Norfolk, Virginia. It cost $500,000. Contrast this with the one on page 272.

live. People are glad to have diamonds or gold, whether they live in New York or Berlin. The same is true of rubber, coffee, or oil.

How would you distinguish between a *market* and a *market-place?* Could there be national and world markets without the division of labor? Show how transportation is necessary to modern markets.

103. Prices. — We are always hearing about prices and judging them. What is price? To answer that question we must recall the two kinds of value. *Value in use,* or *subjec-*

tive value, as it is sometimes called, is the estimate one puts upon a thing as a means of satisfying personal wants. Water, bread, clothing, typewriters, have a very high value in use. *Value in exchange*, or *objective value*, is the worth of a thing as a means of obtaining other desirable things in trade. Paper money, stocks, bonds, and the like, have almost no value except their exchange value. Some articles naturally have both values to a considerable extent. A table, an automobile, a house, are instances of things that are useful in themselves and are also suitable to use in a trade.

Be careful not to confuse price and value. When an advertiser says a thing has "three-dollar value," he probably means that three dollars is the usual price charged for it, because price is the most common way that we have of indicating the estimate which we put upon a commodity. As a matter of fact, price may not represent value in use at all. Water has an extremely high value in use in a number of ways, but it seldom costs much.

Exchange value or economic value is the kind in which we are most interested, and it has the most to do with the determining of prices. In fact, *price* is the exchange value of an article reckoned in terms of money. Indeed, it is only through money that we have price at all.

Prices of articles may vary from time to time, as you probably know from daily experience. Very few things, in fact, are sold at exactly the same figure from one year's end to another. The price at which a thing is sold at any particular time may be called its *market* price. For most commodities there is a *normal* price, which is the average price above and below which the market price wavers. With some commodities, such as salt, the market and the normal prices are the same much of the time.[1] In the course of a long time the normal price itself may tend to rise or fall. The normal price

[1] For illustration of these facts, see the graph in § 108.

of sugar about 1889 was eleven cents a pound. Then it began to decline, and twenty years later six cents was nearer the normal figure, until the War upset the whole system of buying and marketing the sugar crop.

If prices fall, is the general wealth of the country any less? If they rise, is the country better off?

104. Where Price Tends to Settle. — To find out exactly what determines price, let us start with a very simple illustration. Here are seven men who would each like a suit of clothes, and seven other men who each have a suit to sell, of approximately equal value:

Would-be Buyer	Will Pay	Would-be Seller	Will Sell for
A	$50	Z	$40
B	35	Y	30
C	32	X	28
D	30	W	27
E	28	V	25
F	20	U	24
G	15	T	22

It is plain that Mr. F. and Mr. G will get no suits, for the most they can pay is lower than any seller cares to sell for. On the other hand, Mr. A, who had his clothes stolen from his room while he was out hunting, would pay more than any of the sellers hopes to get; but if he finds out that the sellers do not know his predicament, he will wear his hunting suit a little longer until he sees what price he will actually need to pay. In the discussion that goes on between buyers and sellers, the sellers discover that five of the buyers will pay as much as $28 and not think they are "stung." The sellers who would if necessary take less than that will quietly put their price up to that figure. The five buyers who would pay that much or more if necessary, will not pay more under the circumstances. Five suits will change hands at $28. Z and Y will not sell their suits, and F and G will not get any. Suppose that instead of each seller having one suit of clothes to dispose of, some of them might have a considerable number to sell. To what extent would this fact affect the price they would be willing to

accept? What difference might arise if some of the buyers would take more than one suit?

Naturally, no such ridiculously simple bargaining over suits of clothes occurs to-day in any civilized country. But the principle of this bargaining operates on an immensely large scale. The 50,000,000 men and boys in the United States who want suits of clothes do, consciously or unconsciously, go through some sort of deliberation before or during the time when they visit some of the thousands of men engaged in making and selling men's clothes. The collective or average result of all this conscious or unconscious bargaining is the fixing of prices for various grades of suits at the points where we actually find them. The general rule for price settlement is this:

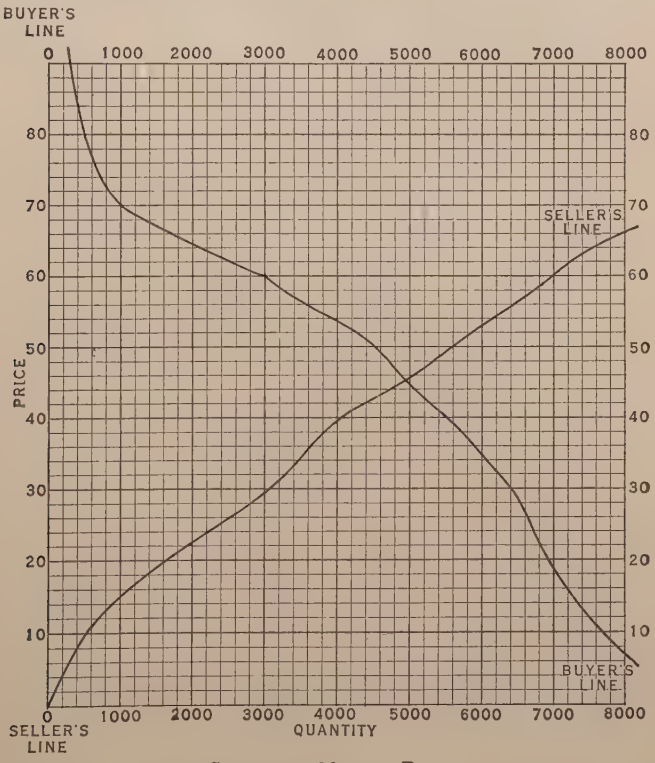
Price tends to settle at the figure at which the largest number of buyers are willing to buy and the largest number of sellers are willing to sell.

Since usually sellers have more than one unit of a commodity to dispose of, and since buyers often will take more than one unit, the quantity that can be disposed of will regularly enter into the consideration of both buyers and sellers. But the principle is the same as before. To word it so as to take this element into account, we may offer the following:

Market price tends to settle at a figure which will produce greatest volume of business for both buyers and sellers.

Perhaps this also can be best explained by a graph. The figures at the top and bottom represent the number of units or commodities bought by the buyer or sold by the seller, while the figures along the two sides are the prices at which the commodity is supposed to sell. Let us take the sale of oranges as an example. Starting at the right-hand margin, we may observe that if the oranges were selling at ten cents a dozen, about 7700 dozen could be sold in a certain market. If the price rises to twenty cents a dozen, then perhaps about 7000 dozen could be sold. If the price goes to thirty cents, only 6400 dozen might be sold, and so on. The number of oranges that the buyers would take would decrease each time the price was raised. Now we go to the left side and examine the price at which

sellers are willing to sell their goods. At ten cents a dozen, dealers would be willing to sell very few oranges. At twenty cents they might be willing to sell 1600 dozen. At thirty cents they might be willing to sell 3000 dozen, and so on. Now, the place where the line of the buyers and the line of the sellers intersect is the market price, in this case about forty-five cents, and the amount sold in this market will be about 5000 dozen.



Curves of Market Price

Why does a certain clothing firm fix an unchangeable price of $22.50 for every suit it sells? When you buy a suit of clothes, how much thought do you give to the price you are willing to pay? What elements enter into the price of goods at a public auction as compared with the elements that fix the normal market price of the same goods?

Naturally some people pay much less for clothes than they would willingly pay if necessary. They obtain a considerable "buyer's surplus." Some dealers also get more than they would be willing to sell for. They secure a "seller's surplus." On most transactions there may be both a buyer's and a seller's surplus. Under any ordinary circumstances, if you buy a pair of shoes for $5, you value the shoes more than the $5, and the dealer values the $5 more than the shoes. You are both, if not happy, at least willing to make the trade.

Perhaps if you knew all there is to know about the cost of making shoes, you wouldn't pay $5, and if the dealer knew how little you do know about it, perhaps he wouldn't sell them to you for that price. Maybe ignorance is bliss on both sides. But happily there is considerable to show that much modern business is getting back to the ideal of the medieval gilds which tried to determine a "fair price" for their products and then stuck to that price for every purchaser. In the long run such a policy produces more good will, and therefore more business and more profits, than the disagreeable haggling engaged in by the imaginary personages in the economics books who are always determined to buy at the lowest possible price and to sell at the highest figure they can possibly get.

105. What Enters into Cost. — One reason why a seller will not sell goods below a certain figure is that the actual cost of preparing the goods for the market cannot be reduced below a certain point. We surely would not expect any one knowingly to sell goods below cost for any length of time. He would go out of business first. To understand everything that enters into the production cost of a commodity would demand a knowledge of a tremendous number of business activities. To show the truth of this, we have only to take as an illustration, let us say, this textbook.

Perhaps you have thought that no one except the publisher and the author is concerned with what it costs to make and sell a book. Far from it! The author's expense in time,

in his secretary's salary, and in meeting other little incidental needs is only one element. The publishers, too, as far as they actually work themselves or through their salesmen, do not incur an enormous expense in getting the book on the market; but the material cost is considerable. The paper, the ink, the wages of the printers, the cost of type, the pictures, the cloth and whatever else is needed to bind the book — all these must be allowed for in estimating the cost of production, to say nothing of the profit that should go to any one concerned in issuing the book. The total actual cost of a commodity in materials and labor is often called *prime cost.*

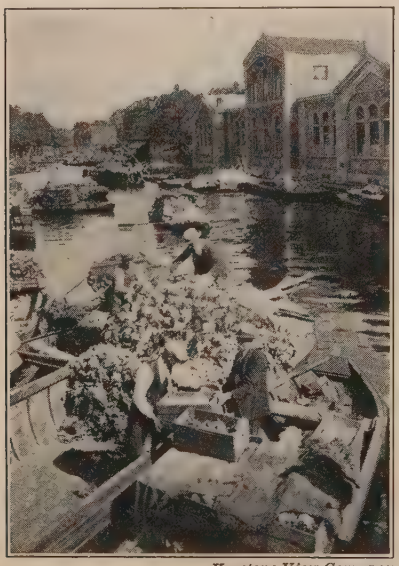
In addition, there are many outlays which we might call secondary expenses, such as the maintenance of the office of the printer, the keeping up of the publisher's office, the value and the cost of the printing presses and the depreciation in their value resulting from use. These are only a few of the expenses which contribute indirectly to the cost of this volume. If you want to go still further back, we can include capital, labor, and raw material required in the making of the paper, cloth, ink, type, and the like, which we must have. To tell just how much any one of these different items adds to the selling price requires very intelligent and careful figuring.

The expenses of a business which are not directly due to the production of a particular article, but which are required for its general operation are commonly referred to as *overhead.* The maintenance of a general office force, the heating and lighting of a factory, the bills paid when a business man takes a prospective buyer out to dinner, are examples of the numerous items which are charged to overhead. A merchant in reckoning the cost of production must not forget to take this element into account. An increase in the production of an article usually does not cause a corresponding increase in overhead, but a decrease in production raises the overhead for each unit.

What does a business man mean when he says, "We must cut down our overhead"? Does he always know what his overhead

for a unit of production is? Will he ever sell any of his goods at a price that will not cover the overhead on them? Will he ever sell goods at less than their prime cost?

Would an increase of wages to the workingmen in an ink factory affect the cost of this book? in a paper factory? in the cost of printing presses? Make a list of the items that help to make up the cost of producing and marketing milk to the city consumer.



Keystone View Company

A Floating Market

Leyden, Holland, with its canals offers a means of bringing goods to market that few except the Dutch could make use of. They raise great quantities of vegetables and flowers.

The cost of production inevitably varies with different producers according to the advantages they enjoy in respect to situation, labor supply, efficient management, and other items. When a producer of a certain commodity just manages to keep his business going he becomes a *marginal producer*. His cost of production may be called *marginal cost*. Marginal cost may of course vary from time to time as general business conditions change or greater or less efficiency enters into the operation of a particular business. There will always be marginal producers, and the public must pay enough for their product to make it worth while for them to stay in business. Therefore the cost of production to these marginal producers will be the determining influence on prices rather than the cost to any other producers.

Why must there always be marginal producers?

Cost of production is one notable item. But we must now admit two of the leading characters in our drama of Markets and Prices. We have kept them off the stage perhaps too long already. They are Demand and Supply.

106. Demand. — Demand is not merely the desire for a commodity. Economic *demand* is the desire for a commodity plus the ability and willingness to pay for it. If a commodity is priced so high that very few people *can* pay for it, it will not be in demand. It must also be such that people are *willing* to pay for its usefulness or for the satisfaction derived from its possession.

Demand is simply the result of the various influences which cause people to wish to possess something. One of them may have a good deal to do with my desire to possess something and very little with John Smith's interests and wishes. When we say that there is a " demand " for any particular commodity, we mean the sum of my desire for it, plus John Smith's desire, plus the desires of every other person in the community under the conditions that exist at any particular time. The influences which contribute toward this important element are many.

(1) *Personal likes and dislikes.* The ordinary boy has no use for a powder-puff. The ordinary girl doesn't need one, either, but she finds frequent use for it, nevertheless. I may like to study Greek, but few people do; so there is a comparatively small demand for Greek textbooks. The great majority of people enjoy moving pictures. There is a great demand for these, although I myself may not see two in a year.

(2) *Fashion and custom.* Few men wear dress suits because they feel especially comfortable in them or because they are cheap. Certain social customs have brought it about that a dress suit is looked upon as " the thing " for a man to wear at some particular time and place. Celluloid collars might find a very considerable demand in some

communities, while in other social circles no man would think of wearing them. Some people demand a commodity because their neighbor has bought it, and they do not like to be outshone.

(3) *The ability to supply something*, such as money or some other goods, in exchange for the thing desired. A street-cleaner getting $1200 a year might desire ardently to own a Packard automobile, but his economic demand for it would be represented probably by zero.

(4) *The necessity of the commodity* to sustain life or promote comfort. Coal goes into a dwelling house for no other purpose than this, but this reason alone creates every year a considerable demand for this commodity.

(5) *Varying seasons and conditions.* People do not wear tennis shoes out of doors in cold weather. The demand is greatest for them in the spring and summer. The man who sells umbrellas puts them on display when the weather is rainy or cloudy and not when the sky is blue and the sun shining.

Demand may be elastic or inelastic. Elastic demand is felt for products that people do not want all year round, such as snow shovels, fur coats, coal, and screen doors. Inelastic demand is expressed for things that people want at any time, such as water, food, and telephones.

Some commodities are desirable for many different purposes. The demand for these is spoken of as *composite;* iron, paper, and wheat are used in a great variety of ways. Another kind of demand is known as *derived.* This exists when an article is wanted not for its own qualities but for the thing that can be obtained by reason of its use. The farmer's plow is an example of an article with a *derived* demand. Almost the only reason why we should want a plow is that we want to grow something from the ground.

How does advertising affect demand? Would an increase in a man's salary affect his demands in any of the lines mentioned in this section?

107. Supply. — Unless people want something or can be made to think they want it, that thing will not be produced. Demand therefore comes before supply, but the existence or absence of a supply of a commodity affects notably the intensity of demand at any particular time. If people think that it is going to be difficult to get something that they want, they will often try to lay by a larger store of it than they need at a particular time. This state of mind will lead them to inconvenience themselves and even to pay abnormally high prices in order to get the commodity in question. On the other hand, if they can get all they want of a commodity at any time, they are not likely to express a particularly active demand for it, even though the demand may be steady. During the World War, when the supply of sugar was limited, one might have seen people going from one store to another in a city, buying all the sugar they could get at each store. To-day no one worries about being able to get sugar whenever he wants it.

Supply, in the study of economics, does not mean merely an amount of goods. Supply is the amount of a commodity *available for use*. Coal in the ground, though you know it is there and can be obtained, is not supply, but coal that has been taken from the ground and is ready for the boiler or the furnace is supply.

The actual supply of some articles may have an *absolute limit*. Flour, for instance, cannot be made beyond the amount of grain which is raised within a given period. A poor wheat season will therefore reduce the flour supply. If a few men corner the wheat market by buying large quantities of it, an artificial limit is placed upon the supply. Tickets for a theater performance or a baseball game are limited by the number of people who can get into the theater or the park.

The supply of some commodities, too, may be *controlled by law or by custom*. The law now limits the amount of liquor that can be sold at drug stores, and even when saloons were

licensed, restricted it to some extent by the fact that it could be legally secured only at certain places. In small towns there is often a kind of private agreement between different storekeepers that one will not sell things which the other does. The supply in such a community will depend upon the foresight of the person who happens to deal in a certain article.

Supply, like demand, may be elastic or inelastic. It is *elastic* in the case of commodities whose production responds

Wide World Photos

THE SALT INDUSTRY OF ITALY

Sea water is allowed to evaporate in reservoirs and the salt that is left is then piled up in large heaps to be carried away in barges. When does the salt become *supply* in the economic sense? Is there any limit to it?

readily to changes in demand, like straw hats or hot cross-buns. It is *inelastic* when it is limited by general crop conditions or other situations, as in the case of apples or houses in a certain neighborhood. The supply of apples, however, might be *variable* from year to year as contrasted with a *constant* supply of boots and shoes. "Strawberries may come, and strawberries may go, but prunes we have with us always."

Give five or more examples of limitations of supply in your community. Is there any commodity into whose price the cost of production does not enter extensively? Mention outstanding causes of possible undersupply or oversupply of a commodity.

108. Demand, Supply, and Prices. — Let us see now how demand and supply affect prices, and how price in turn affects demand and supply. Each has a considerable, and sometimes a very great, effect upon the other.

Wide World Photos

MONA LISA

This is one of the most famous paintings ever made. What gives the original its value?

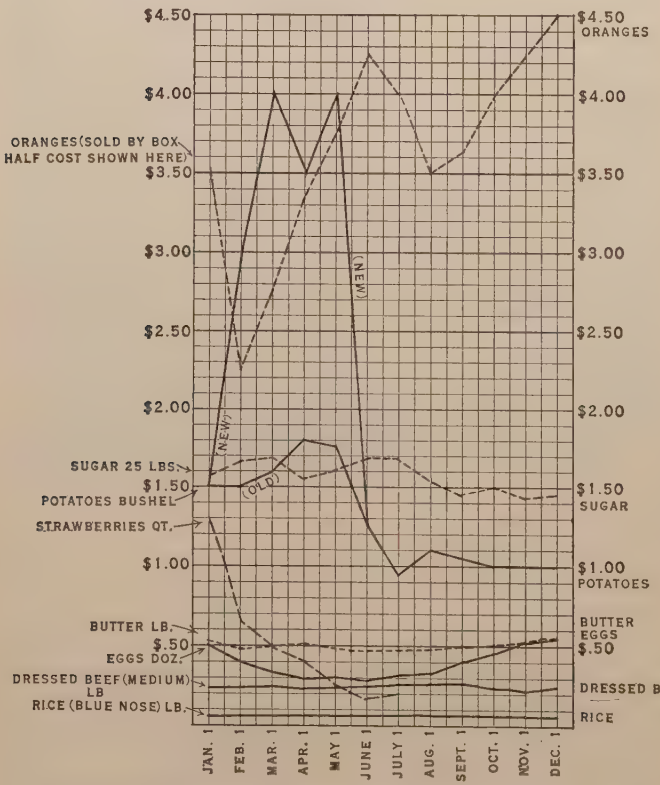
(1) If the demand for a commodity is heavy, prices will be increased; if the demand is light, prices will tend to go down. Sometimes the strength of the demand will be determined by the intensity of people's desires rather than by the number of people who want a thing. If the original *Mona Lisa* were put on the market, the picture would bring many thousands of dollars — not because many people would bid for it, but because those who would bid would be willing to pay a great deal of money.

Prices vary directly with demand.

(2) If the supply of a commodity is large, its price will tend to go down; if the supply is small, its price will tend to rise. Sometimes the supply is naturally scarce, as with diamonds or works of art, because nature has not been free-handed in

the disposal of gems or genius; sometimes a crop is poor or out of season. A banner wheat year may not be wholly a blessing to a wheat grower; for if the price goes down, he may not get any more for his entire wheat crop than if he had a smaller crop and got more for a bushel.

Prices vary inversely with supply.



Comparative Prices of Commodities Month by Month, 1928

This diagram shows the fluctuations in prices of certain commodities during the year. These statistics were furnished by the courtesy of Sander and Company and the Pittsburgh *Post-Gazette*. What explanation can you offer for the variation or steadiness of prices of the goods mentioned?

(3) If prices are high, there will be some who cannot buy a commodity who otherwise would, and others who *will* not pay for it because they prefer to spend for something else or not spend at all. On the other hand, a low price encourages people to buy.

Demand varies inversely with price.

(4) If prices are high, producers are likely to put more of their commodity on the market; if prices are low, they will reduce their output. If wheat sells high this year, next year farmers will plant more of it, and relatively inefficient farmers will be induced to grow wheat. If potatoes are selling for 25 cents a bushel, farmers will not bother to dig them.

Supply tends to follow price directly.

All of these influences act and react in such a way as to prevent extreme changes in either supply or price, as far as the goods for which there is a steady demand are concerned. If potatoes bring high prices this year, more than usual will be planted next year, and the price will come back to normal. In the case of goods which are not necessities, such as a freak style of shoe or a Spanish comb, both price and supply may change extensively and suddenly.

Illustrate these principles from some local product. Do you suppose styles in women's dresses have affected the profits of cotton and woolen mills?

A company has been making cough drops and selling them at five cents a package. New conditions arising, the cost of manufacture goes up 50%. What choice would the company have in regard to the sale of its product? If you were a manager or director of the company, what policy would you recommend?

International trade as carried on by modern business tends to establish uniform standards and prices. Certain cities are centers of production for particular commodities, as Chicago is the great wheat market of the world, Rio de Janeiro the

center for coffee, and London and New York the centers of financial exchange.

The price of wheat in Chicago may be affected by disaster to the wheat crop in Argentina. In times of peace it is a relatively small matter to ship wheat from one part of the world to another, and if the whole supply of the world is reduced by misfortunes in one country, the price of wheat all over the world will go up somewhat. Some differences in prices will exist at any time by reason of local differences in the cost of production, nearness to the market, and similar influences. Perhaps for a short period the differences may be large, but in these world products the tendency is for prices to become uniform.

109. Monopoly Prices. — We have been discussing demand, supply, and price as they work out in a competitive market; that is, when more than one seller is connected with the production of an article, and when each seller is presumably trying to get all the business he can conveniently handle. Sometimes that is not the case. One person or group of persons may control the entire output of something, and you must buy from them or not at all. (We have referred briefly to this matter in § 64.)

What happens to price in that case? Our first thought may be that the sky is the limit — we must pay whatever the monopolist asks or go without his product. Very true, we must; but there are a number of reasons why the monopolist is not very likely to charge a really outrageous figure.

This book, for example, is to a certain extent a monopoly product. There is no other just like it. Other people than the publisher are forbidden by law for twenty-eight years to copy and issue this book. One author is responsible for it. Why is its price not ten dollars a copy? One reason, of course, is that its publishers are reasonable people. But leaving out that side of it, we can be sure that comparatively few people would pay ten dollars for a book on economics,

no matter how good it might be. If they wanted such a book they would take a cheaper one, even though it might be poorer in form and content.

This brings us to the first fact which limits monopoly prices. The *possibility of substitution* is a real check. People will either use something else or go without a thing entirely if it costs too much.

The *encouragement of competition* is another factor which restrains unreasonable monopoly prices. Even if there were no other economics textbook in existence except this, somebody would probably write one, if this book cost ten dollars. The work could be done and the bock sold at a profit for considerably less than that -- that is, if it were good enough to make people buy the book at all. The monopolist, therefore, is careful not to put his price so high as to induce other people to go into the business and undersell him. His object is to make money. If a limited sale at a high price brings him less profit than a larger sale at a low price, he will reduce his price.

Let us try another specific example, showing the sales of an imaginary copying machine. If the company sells it at $1000, maybe it will sell only 1000 machines. If, when it makes such a small number, the cost to make them is $200 each, its profit would be $800,000. If the price were cut to $800, it might sell 2000 machines. Now that it is making more, the cost of producing them would be less, and each one might cost $175 to produce, thus making the profit $1,250,000. So the company go on, estimating or actually experimenting at different prices.

When the price is reduced to $100, 200,000 might be sold, and the cost of production be reduced to $85, thus making the profit $3,000,000. If, however, the price were reduced to $50 and 500,000 were sold, and the cost of production was reduced to $45, the profit would be $2,500,000 — less than when the machines were sold at $100. The price of this machine will probably be fixed at the point of highest

total profit, $100, which would probably not be an unreasonably high price, in this case.

MONOPOLY PRICE

Selling Price	Number Sold	Cost to Make	Profit
$ 50	500,000	$ 45	$2,500,000
100	200,000	85	3,000,000
200	40,000	130	2,800,000
500	5,000	150	1,750,000
800	2,000	175	1,250,000
1000	1,000	200	800,000

Suppose a monopolist gets control of some necessity of life — salt, sugar, flour — then there can be no substitution. If he controls the source of the supply, there is no possibility of competition. When the two checks which we have already noticed are then not sufficient, we must have the third, *governmental control.* It is not safe to assume kindheartedness in a monopolist. The very fact that the government could and probably would intervene makes any intelligent monopolist hesitate. Monopolists who would respect nothing but brute force might require that remedy, however.

Give examples of a monopoly production where the monopoly is not dangerous; of products in which a monopoly would be exceedingly dangerous.

110. Price Levels and Index Numbers. — Our discussion so far has largely concerned the prices of one commodity as compared with another — why wheat costs more or less as compared with corn, or why a certain hammer costs seventy-five cents rather than fifty. As we look at price lists of different years, however, we may exclaim, " Why, everything costs more than it used to! What's the idea? Surely there isn't a greater demand for everything than there used to be! "

Perhaps that may be true, however. We want many things to-day which a half century ago we never thought of.

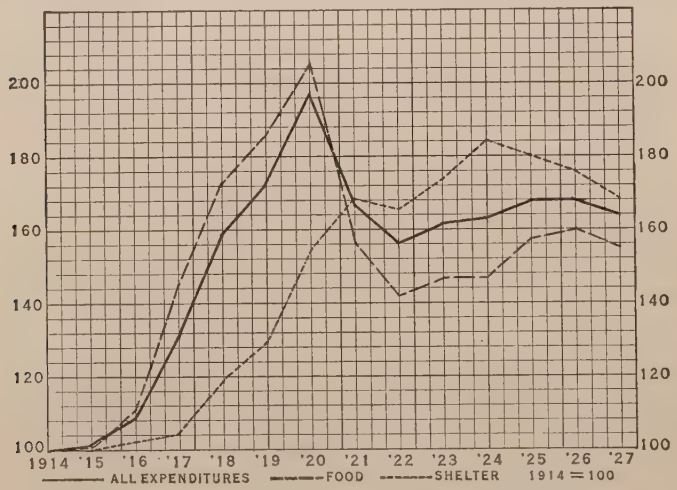
One Sunday suit and one week-day suit used to satisfy most men, but there are plenty of men to-day in moderate circumstances who insist upon having five or six suits. This is an illustration of the greatly increased demand which has helped to make everything go up in price.

> **And No Cover Charge!**—The Apple Restaurant opened last Monday. The menu consisted of roast beef, boiled ham and chicken; potatoes; cabbage, beans, corn, and sweet potatoes; pies and cake, coffee and milk. It was the general remark of one and all that for the sum of 20 cents they never ate a better dinner.—*"Fifty Years Ago," in the Salem (Ind.) Democrat, quoted by the Literary Digest.*

The more people that handle an article between the original producer and the person who uses it, the more chances there are for taking profits and adding needlessly to the price. Our crop of middlemen, as we have noticed (§ 66), render some service, else they could not long exist, but it seems that there might be devised some system by which our necessities of life would not have to be handled by so many different agencies before they came to our households. Surely if this were possible, it would help to cut down prices in general.

One notable condition which affects prices is the amount of money in circulation. We measure the economic value of everything else by gold. If there is more gold and other currency in circulation to-day as compared with five years ago and only about the same amount of some other commodity, it will take more gold to equal the value of one bushel of wheat, for example. Therefore, the price of wheat, which is its value in gold, will be higher. This is one reason why prices have advanced in recent years. There has been a larger amount of money in circulation in this country. This increase causes prices in general to rise; a reduction of the "circulating medium" would cause them to fall.

This proposition is known as the *quantity theory of money*. Some economists point out that if business is active, money will change hands frequently, and more currency will be needed than if business is dull. When we try to explain a general increase in prices by an increased quantity of money, we must admit that other conditions enter in. But this



INDEX NUMBERS FOR CERTAIN FEATURES OF THE COST OF LIVING, 1914–1927

Note that the peak of food costs and total expenditures was reached in 1920 and has since come down noticeably although still far above the 1914 figure. Rent, on the other hand, did not reach its peak until 1924 and is now the highest of the three items with reference to the 1914 base. Can you explain these fluctuations and the relative position of the three lines now and earlier?

theory certainly does seem to explain many instances of price inflation.

What would be the effect on prices of the opening of gold mines that are at present unknown? Why does the increased number of wants of the average person raise the general standard of prices? How does a general rise in prices affect the following people: one who owes debts, a money lender, an investor in bonds, an investor in stocks, a general storekeeper, the owner of a gold mine, a worker in a gold mine, a public school teacher?

As a means of indicating general changes in price levels we sometimes employ index numbers. An *index number* is a number which represents a certain price in comparison with the price of a given year which is taken as a standard. The year 1913 is often used as the standard, because it was the year before the War and conditions were normal.

The number 100 is used for the standard year. The price in other years is then compared with 100 and indicated by a number which shows the percentage as compared with 100. For instance, if potatoes were 50¢ a bushel in 1913 and 75¢ in 1917, the 1917 index number would be 150 as compared with 100 for 1913.

In working out an index number that would represent an average of the prices of all commodities, a large number of items would be estimated in the same way as the example given for potatoes and the average of all worked out. Often these averages are "weighted" so that the commodities most extensively used will affect the general average to a greater degree than the commodities that are not used so much. The following table gives figures compiled by the Bureau of Labor Statistics for four important groups of commodities in four different years:

Commodity	1913	1917	1920	1926
Farm Products	100	189.6	217.9	142.2
Foods	100	167.2	219.7	152.9
Cloth and Clothing	100	175.3	295.5	175.9
Metals and Metal Products	100	231.0	191.7	126.7

If these commodities were made the basis of the general average, we would add up the columns and divide by four, obtaining the following results: 100; 190.8; 231.2; 149.4. As a matter of fact, the general averages given by the Bureau of Labor Statistics for all commodities in these years were as follows: 100; 177.2; 228.2; 151. You will notice that for 1920 and 1926 the four commodities mentioned in our list would almost serve as a fair representation of the whole range of commodities. A conclusion from these figures would be that the cost of living in 1920 was more than double that of 1913 and about half again as much in 1926 as in 1913, and

that a dollar in 1926 would purchase only 66¢ worth as compared with what it would buy in 1913. Index numbers can be used to represent various other ideas than changes in price. And after you once get accustomed to them, they offer one of the simplest ways of expressing the relation of one set of facts with others.

Watch current newspapers and magazines for the latest index numbers and statistics on the cost of commodities. Statistics of the country's wealth in 1910 and 1920 seem to show an enormous increase. Did the country actually become immensely richer during that period?

111. Business Cycles and Crises. — The business history of the United States — and of other countries, too, though particularly noticeable here — is a series of ups and downs, good times and hard times, prosperity and depression. For a century we had a " panic " once in every sixteen to twenty years: 1816–1819, 1837, 1857, 1873, 1893–1896, 1907. In between these dates, as well as before and since, we note fluctuations of a few years in length.

(1) There is a *depression.* (2) Prices being low, some courageous business men are encouraged by low costs of production to renew active business. Others also take courage. A *revival* gets under way. (3) Prices rise, profits are bigger. New enterprises are started, some of them risky. *Prosperity* is on. (4) Much money has been borrowed. Banks get scared and demand payment of loans. This proves awkward for some business men. A period of *financial strain* follows. (5) Perhaps nothing worse follows than a slump in business. New production is not undertaken. Men are laid off, and *depression* ensues. We are back where we started. The cycle is completed.

If at such a time there should occur a failure of some banking or business firm affecting many interests, the situation might actually turn into a panic. Then everybody gets excited and usually does the wrong thing. Stocks sell at low prices and fortunes are lost overnight. Business crises in any country have some effect on the whole world, as well as on the country in which they occur. Alternations of

prosperity and depression unsettle industry, hinder trade, cause money values to rise and fall, and produce unemployment and business nervousness.

Different theories have been offered as to the causes of business depressions. The overproduction theory says that there are more commodities produced than can be sold. This is quite possible in some lines, but it is not likely that it will occur in any great number of industries at once. The overspeculation theory is more generally accepted. When speculation occurs extensively, prices go up without any sufficient reason. The Florida land boom of a few years ago is a good example. Something has to tumble sooner or later. Those who have the keenest foresight "get out from under" in time, but their own withdrawal hastens the collapse of the rest.

Brown Brothers

A Run on a Bank

People easily become alarmed when business disturbances arise, and their first thought is to get their hands on their money again. Notice the long line making its way into the bank and the crowd of spectators watching the excitement.

Professor Mitchell, who is the chief author of the "five step" idea of business cycles mentioned before, thinks that their occurrence is almost inevitable under our present business system. If that is the case, the changes can be made less severe if we know they are coming and prepare for them. There are firms who attempt to forecast what business conditions will be like, and thus warn business men. Our Federal Reserve Board and Department of Commerce help by publishing information about the condition of crops and business tendencies in general. The Federal Reserve Board,

through its control of the rediscount of notes, tries to keep credit from stagnation on the one hand and inflation on the other. At least we are now trying to find out the dangers and be forewarned. That much is an improvement over the past.

Business is often slack in the year when a President is elected. Is there any sense in this? Who suffer more in times of depression, rich men or poor men?

The consideration of markets and prices touches every phase of modern industrial life. Markets of to-day may be local, as at first they necessarily were, or national or even world-wide. Price is the dominating element in every market — indeed, prices *make* markets. Prices tend to settle at the point which will produce the largest volume of business to both buyers and sellers. This is true of monopoly prices as well as of others, for there are restraints upon even the monopolist.

Prices are fundamentally governed by the cost of production of commodities, but in their fluctuation from day to day or year to year, demand and supply are the main factors. Price itself reacts on them in turn and helps to stabilize the production of at least the standard commodities. The more nearly we can stabilize production and prices, the less we shall need to fear from business crises or uncertainty.

Special Studies

Great Fairs of the Middle Ages
Prices To-day and One Hundred Years Ago
What Enters into the Price of Sugar (or Oil or Rubber or Bread, etc.)
Special Price Problems in our Community
Activities of the United States Department of Commerce
The Study of a Particular Business Cycle
An Explanation of the Financial Panics in American History
The Effect of Presidential Elections upon Business Conditions
A Study of Price Variations during a Year in our Community for Potatoes (or Eggs or something else)

Reference Readings

Adams, *Description of Industry*, Chapters 8, 19
Carver, *Principles of Political Economy*, Chapters 22, 23, 26, 27
Clay, *Economics for the General Reader*, Chapter 11

Ely, *Outlines of Economics* (Third Revised Edition), Chapters 10, 11
Engberg, *Industrial Prosperity and the Farmer*, Chapters 5–9
Hardy, *Risk and Risk Bearing*, Chapters 5, 6
Marshall, *Principles of Economics*, Book V
Marshall and Wiese, *Modern Business*, Chapter 8
Marshall, Wright, and Field, *Materials for the Study of Economics*, pages 371–442
Mitchell, *Business Cycles*, Chapter 14
Seager, *Principles of Economics*, Chapter 7
Seligman, *Principles of Economics*, Chapters 15, 16
Taussig, *Principles of Economics*, Chapters 8, 10, 15, 16, 28, 29
Thorpe and Mitchell, *Business Annals*
United States Bureau of Education, *Lessons in Community and National Life*, A–10, C–13
Weld and Tostlebe, *A Case Book for Economics*, pages 202–209, 238–349
Williamson, *Readings in Economics*, Chapter 14, Selection 107

PART V: WHERE THE RETURNS FROM PRODUCTION GO

(Distribution)

CHAPTER XII

HOW DISTRIBUTION IS DETERMINED

The only economic as well as moral rule for accumulation is that one should draw from society in proportion as he contributes to the welfare of society. — BRYAN

Now let us summarize a little. We have gone over a few of the main facts which underlie our economic life and have watched the operation of certain processes and methods. We have been told that there are four important divisions of economic activity. Three of these we have already studied: *consumption*, the use of economic goods to satisfy wants; *production*, the giving of utilities to economic goods; *exchange*, the process of transferring the ownership or possession of goods or the money value of goods from one person to another. Practically all this work is done for pay. All those who are connected with the work of production expect some return or compensation for their part in it. How much of these returns should go to those who have supplied land, how much to those who have furnished labor, how much to those whose capital has been employed, how much to those who have contributed managing ability? If our methods have not been such as to give each one what he deserves, how can we improve them?

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112. What Is Distribution? — When you hear the word *distribution*, perhaps you think of it as passing out something. In a sense that is true economically — but what is it that is passed around? When a man works for a steel company, he is not paid in steel products — neither does the company

pay for its own raw material with steel. What is really distributed is the returns from production. Let us be sure to get this straight. *Distribution* in the economic sense is the division of income in a business or profession among land, labor, capital, and management. To keep an enterprise running smoothly, a certain amount must be expended regularly on each of these four factors.

The amount which goes for land is known as *rent;* that to labor, as *wages;* that to capital, as *interest;* and that to management, as *profits.*

This distribution is rarely, if ever, equal. Planning a railroad, laying the tracks, and operating the trains are much simpler than deciding how much each factor contributes, and therefore what part of the return it deserves to get, and then seeing that it does not get more than it ought. We shall not try so much to determine what would be the ideal distribution as to discover why the division happens the way it does. Perhaps in the process we can obtain a clue as to what is wrong, and a suggestion or two about righting some of the injustices.

Survey the extent to which each factor contributes toward production in primitive society, in medieval civilization, and in recent years.

113. What Determines Distribution? — Ideally, we would say that the services rendered should settle the matter. The man who does good work and faithful work should be compensated as generously as the occupation with which he is connected will permit. The returns going to those who contribute any of the four factors in production should be divided on the basis of what each contributes. We are not concerned with getting *equal* distribution for each factor. That might be decidedly unjust.

Some economists have expressed the theory that when there is no restriction upon the free play of the forces that enter into modern business, each factor in production will

in the long run tend to get returns in proportion to its efforts in production. That is, if labor's services are almost half of the whole process, it will get 45 or 50 per cent of the whole returns. If land is fundamentally important, it may get 35 or 40 per cent instead of a smaller fraction. The returns depend on the quality and amount of the services rendered. This is called the *productivity* theory.

Others lay stress on what may be called the *monopoly* theory. They say that the return which comes to those who contribute any factor in production depends upon the extent to which they control the supply of that factor. Your return does not depend so much on how good your services are in themselves, but how good they are with reference to anybody else's services. The principle of comparative costs (§ 76) applies to individuals as well as to districts or communities. Babe Ruth may be able to manage a garage successfully, but as long as he is able to shine on the baseball field, he will do best to continue to hit home runs and let other people manage garages.

The nearer you can come to being the only source of a service, the bigger returns you can obtain. If there is only one good site in a community for a factory, the owner of that land will get a higher return for its use than if there were three equally good sites. If you get a large income as a physician, it is not because you "know your stuff," but because you render a service that few others can render. Of course, you could not render that service unless you possessed the needed talent and information, but the other point is the one that counts, says the advocate of the monopoly theory. Very likely in thousands of specific instances he can make out a good case for his theory.

Either way, the question is one of demand and supply. Does the supply come from freely competing sources, or is it artificially limited in some way? Whichever theory we accept, the matter resolves into a question of bargaining power. By *bargaining power* we mean the influence that

can be exerted on others in securing returns for goods or services.

Let's take, for example, the price asked for a railroad ticket from Pittsburgh to New York. Suppose we think the price is too high, and therefore make an appeal to the railroad company. We, individually, will probably have no effect upon them. Even several indignant citizens who believe they are being robbed would not decrease the prosperity of the railroad company should they withdraw their patronage, for they represent only a small percentage of the people. But suppose that the Interstate Commerce Commission declares the rate too high. The price will speedily fall! In such matters the word of the Interstate Commerce Commission is the voice of the country itself. Its bargaining power is tremendous.

Courtesy of Davey Tree Expert Co.

A Dangerous Job

Some kinds of work like that of this tree expert and the structural iron worker cannot be done without some element of danger, even though all possible attention is paid to the safety of the workers. Perhaps this is one of the men in the picture on page 79. No doubt he gets good wages. On what would his demand for them be based?

If a worker says to his employer, "You must pay me what I ask or I will quit," the employer may be in a position to reply, "If you don't like what I am paying you, you don't have to stay." But if, instead of this, the workman can say, "If I leave, you will not be able to fill my place,"

the employer is going to treat the matter far differently. To develop this sort of bargaining power and to use it when necessary upon the employer is a fundamental object of the labor union. There is a limit to such pressure, of course. No employer can be compelled to operate his business at a loss. He will close up first. Moreover, union members recognize as readily as any one that the better qualified and more efficient a workman is, the surer is his hold upon his position.

Does the one and only doctor or dentist in a country village succeed by reason of his productivity or his monopoly power? Do you know of any cases where really incompetent workers held their positions for a long period? If so, what was the reason?

Make a list of twenty-five occupations or professions in your community and try to determine which of the forces mentioned here have the most weight in fixing the income of each. Has a person the moral right to live on a fortune which some one has left him and spend his time in idleness? In what does his bargaining power consist?

114. Rent. — The economist uses the word *rent* to mean the return that is due to the use of land in production. There are numerous ways in which men employ land so as to bring returns to themselves. The farmer works it, plants seeds in it, and cultivates it. The miner, or any one engaged in what are sometimes called extractive industries, takes out of the earth the metals or minerals which some one else will find useful. Workers in many industries employ things grown on the land, or taken out of it, as raw materials from which they make a finished product.

Other people get an income from land without doing a stroke of work on it themselves. They get possession of a piece of the earth's surface and then ask others to pay them for the privilege of using it. In other words, they rent it. Some men, also, have become rich by getting hold of a tract of land and selling it later for much more than it cost them. Others have become "land poor" by having their wealth

tied up in a purchase of land which they are unable to dispose of or to use advantageously.

If each of the factors in production contributes something, each deserves a part of the returns. On that principle the person who possesses land and allows it to be used in industry is entitled to receive a share of the product equivalent to the part which land played in producing it. This view assumes

Detroit Steel Products Company

WHERE RENT IS LOW

This building was erected where it is because land does not cost so much in that neighborhood as in other suitable locations. What causes the difference?

that a private citizen has the right to take land and keep it for his own use — but we will discuss that in the next section.

We must be careful to distinguish between the two uses of the term *rent*. There are two kinds of rent, economic and commercial. Economic rent is the return for the use of land only. Commercial rent is that resulting from any improvements on the land, such as drainage, grading, buildings, or anything else that adds to its natural earning power. Since it is this latter sense in which the word is commonly used, the distinction is very important. "House rent" or "office

rent" usually includes returns on capital and management as well as on land.

There are two big influences that affect rent, namely, *location* and *fertility*. The location of even a hot-dog stand in the heart of a city or beside a much-traveled auto road, as compared with a remote or little visited point, makes all the difference in the world. This explains why city land is usually so

A Well-Situated Farm

The owner of this farm receives rent from both location and fertility. It is situated near a large city and can raise many kinds of crops.

much more expensive than rural land. But if the soil on a farm is fertile and the facilities for cultivation are notably good, the rent for such land will soar. If such a farm has the advantage of location near a large city or on a main highway, its owner will have a double basis for a good rent.

Will the principles governing demand and supply affect rent?

How much of the returns should really be considered rent is not easy to determine exactly. When land has been improved by railroad building, or by draining or grading, or

even by fertilization on the farm, some of the returns that come from its use are the result of capital invested rather than of the land itself. This "rent" is paid not in money, but in increased crops, greater usefulness of the ground, or some other form which is difficult to measure.

Another feature which makes rent hard to estimate is that it varies in different parts of the same area. On a farm some land may be much more fertile by nature than other parts. From this fertile soil, a much greater crop will be derived than from other plots on which an equal amount of labor and capital has been employed. In this case the added value of the crop from the fertile soil can be distinctly credited as *rent*. On the other hand, there may be some *no-rent* land. From this will be derived only such returns as are produced by the use of labor and capital. There may be times when it is wise to cultivate such land, but if the cultivation of all available land is not necessary, then the no-rent land will be quickly abandoned.

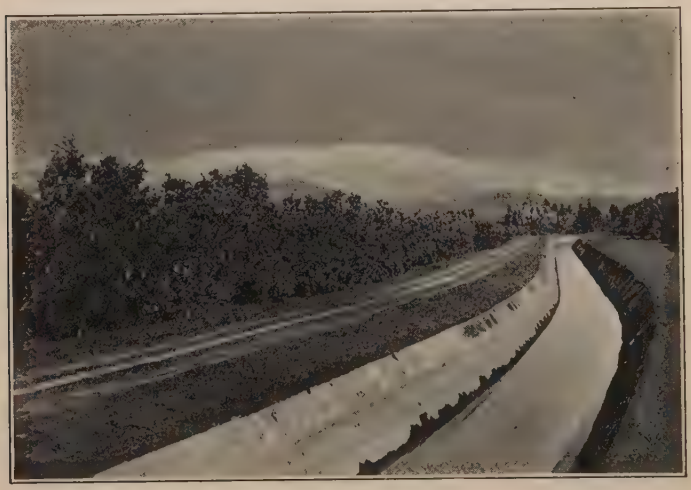
Can land be properly said to be "used" if it is not worked or developed in some way? Give examples in your own community of differences in rent due to location. Under what conditions might the holder of land obtain more for its use than its actual economic rent? Might conditions exist under which the user would pay the landholder less than the actual economic rent?

115. Problems Created by Landholders. — One of the most evident land problems of to-day is speculation. A good example was the boom in Florida a few years ago. Men bought large tracts of land and advertised to attract buyers, then sold at much higher prices and made fortunes. Some who made long-distance purchases found their "land" under water or nothing but swamp, when they came to take a look at their property.

Moreover, speculation in vacant land, whether in city or in country, is a very uncertain project. Land values may fluctuate greatly and are affected by many things. The building of a grocery store or filling station in a residential

section may greatly lessen the value of property there. It is to prevent this sort of thing that many cities have zoning laws, which specify the uses to which land may be put and the kinds of buildings which may be erected.

Does your community have a zoning law? If so, what are its chief provisions? If not, why not?



An Irrigation Canal

To what extent was the investment of the irrigation company that built this canal speculative? Does that company deserve to receive good returns for the risk it took? This kind of speculation evidently was of service to the region that was developed. Wherein did it have merit that some kinds of speculation do not have?

Yet speculation may lead to permanent growth. It was land speculation, in a way, that built up the West, and land speculation did make Florida more prosperous. Everything depends on whether the speculator is really trying to build up a new, flourishing community, or is simply trying to "gyp" ill-advised and ignorant investors out of their savings.

Some people believe it is not morally right to speculate in land, since the speculator does little or nothing himself to give any additional value to the land. What do you think about it?

Going far deeper than any problem of speculation is the question as to whether private ownership of land itself is justifiable. If land is of fundamental importance to every industry, why have private individuals been allowed to own it? Should it not be the property of the public? Some say that land should be nationalized, that is, made the property of the nation and administered by the government. But there must be some reason why private property in land is the common practice.

An interesting question to work out would be this: how did the present owner of any particular tract of land acquire it? Try to trace its changes of ownership as far back as you can go. Land is transferred by a legal instrument known as a *deed*, in which the transfer is definitely stated and explained.

In our western states much of the land was granted free by our government under the Homestead Law of 1862 and its later supplements. This law permitted a person to stake out a claim for his own such as a quarter section (160 acres), the only condition being that he should make some improvement on it and hold it for five years. This policy greatly encouraged the occupation and settlement of the West. Some valuable land thus parceled out did not, however, go into the hands of real home-makers, and to that extent, by fraud or trickery the purposes of the act were not accomplished.

In older countries, as England, the landlord has been a far more powerful factor in society and politics than is just. By virtue of grants made centuries ago, about 5 per cent of the people of England owned until recently 95 per cent of the land of the country. They lived in luxury from the rents which their tenants paid them. The tenant, having no hope of becoming the owner of the land he worked, had neither the inspiration nor the ability to lay up for himself savings that would make him the best type of citizen. Ireland, where the landlords were called "absentee landlords," because they never came near the land which they claimed to own, for many years suffered irreparable injustice. The farmers in

any country will never be contented if others own the land on which the farmers live. One trouble in this country has been that through mortgages and other borrowing the farmers have been losing part of their hold upon land which was once entirely their own. Some of this condition, however, is improving because the government has begun to help them (§ 97).

Some who do not favor nationalization of land do maintain that it is not socially justifiable to hold land unused in the hope that its price will go up. They say that if the value of land increases through no effort of the owner's, but as the result of surrounding improvements, this "unearned increment" should be collected by the community in the form of taxes and not go to the idle landholder.

The advocates of the *single tax* go much further than that. They say that nothing should be taxed except the *value of land.* Henry George was the first famous champion of the single tax. He argued that land is the gift of nature. Men do not make it and, therefore, have no right to take it away from the use of all the people. Buildings and other improvements are the result of man's industry and he should not be penalized for his work by being forced to pay a tax on them. He believed that the greatest cause of misery and injustice is the taking by private individuals of something which they do not in any sense create. He asserted that the rent value of land would meet all the financial needs of any government and would take the place of all our other forms of taxation.

If this idea were put into practice, land would be taxed on its real value whether it was used or not. Abuses like the crowding of people into small areas, and the opposite fault of holding land unoccupied in order that it might acquire a higher value because of improvements made around it would disappear, it is asserted, because nothing would be gained by doing so. This proposition has made some headway. Even in California, where many men have made fortunes through buying and selling land, it received about one

third of the votes cast at a referendum on the question of adopting the single-tax idea.

Some objections occur to one who wants to be "shown" when any new idea is brought forward. One difficult question is this: Will the money needs of a state always be equal to the rent of the lands of the state? Another question might be: Are there not other things besides land which cost the government much in the way of protection, and should these things — houses, factories, and the like — be wholly exempt from meeting the cost of government? Further, instead of relieving the congestion in cities, would not the fact that land values alone are taxed cause people to build more and more closely upon the land which they did possess?

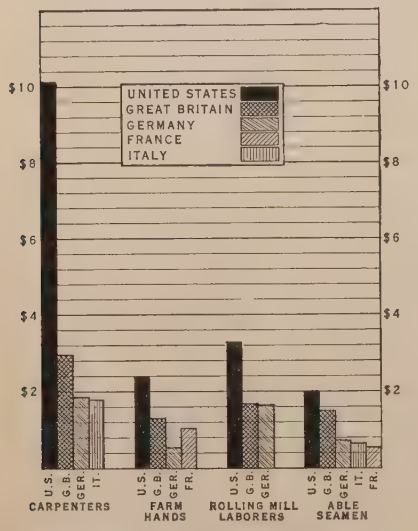
Very many people find it difficult to believe that a change so comparatively simple as this would do away with all the evils which Henry George believed the adoption of his idea would remove. There is no doubt, however, that to make a man pay a higher tax just because he improves the land which he holds or paints his house seems almost like punishing him for making the improvement. Many are willing to go with the single-tax advocates at least as far as to tax buildings at a lower rate than land.

If the single-tax policy were in operation and the government took all the economic rent of land in the form of taxation, would the cost of the common necessities of life to the consumer be affected?

116. Wages. — The return that belongs to the second of the factors in production, labor, is called *wages*. To this account belongs anything that is in the nature of a reward for labor or for services. In common talk, we generally call it "salary" when a fixed amount is paid in money every week, month, or year. But in economics we call it all "wages."

As in the case of the return on land or on capital, the worker does not get a part of the actual goods produced but a sum of money. To-day this is usually handed over to him by an

employer. There was a time when workers who took part in producing something received a part of the actual proceeds of their work as their reward. Then the day came when workers were willing to give up their responsibility in the operation of the business and have no obligation except to do their day's work. No doubt this seemed a relief to them, but it enabled the man with brains, who was willing to take chances and assume responsibility, to take most of the returns for himself, pay to the wage-earners as little as possible, and still keep them at work for him. We do not mean that this was always the policy of the employer, but it was often the case.



COMPARATIVE DAILY WAGES OF LABORERS IN CERTAIN OCCUPATIONS

The figures at the side represent average wages a day in terms of dollars. Do you think the difference in real wages of the workers in the respective countries is likely to be as great as in money wages?

The amount of money which a worker receives for his labor may not really mean as much at one time as at another. The money he receives we call *money wages*, and what it will buy in goods we term *real wages*. Real wages, of course, are what actually count. We must therefore be careful to observe, when we compare wages, whether prices have been the same at different times and in different places. Day laborers in Nevada, forty years ago, might be getting four dollars a day, when similar workers in New York could not hope for more than two dollars. But New Yorkers could then buy milk for seven or eight

cents a quart, while the Nevada laborer paid forty cents a quart for milk.

There cannot be any no-wage laborers in the sense that there is no-rent land. Laborers must live and to do that must be paid, so that they may buy things to live on; while the land continues to exist, whether it is worked or not. If things took a natural course, the wages of laborers would correspond to the quality of their labor, just as the rent of land corresponds to the inherent fertility and usefulness of the soil. But the power that comes from organization and the use of other forces that men can employ interfere with any such simple division of the returns from production. Some workers surely get less than they really contribute to industry, while others quite likely get more.

When wages are raised, should the returns to land and capital be made less? What is the effect of education upon wage standards? Make a list of the elements that ought to be considered in determining fair wages. What conditions might make a high wage standard seem to mean more than it really does?

A person has a position in Philadelphia which pays him $100 a month. He is offered a job in Chicago at $150 a month. Make a list of all the facts you would have to know in order to advise this person intelligently in regard to his acceptance or refusal of the offer.

Wages are paid in different ways. *Time* wages are specific for a certain length of time, such as $200 a month, $25 a week, or $4 a day. Sometimes such wages do not represent a worker's entire income. If a maid receives room and board in addition to a cash payment, their money value should be counted in considering her wages. Sometimes farm workers may be paid in part by some of the crops raised. These are often called *wages in kind*. *Piece-work* wages are those paid in accordance with the amount of work done. In a box factory a worker might be paid in proportion to the number of boxes put together. In cigar factories girls may get a certain amount for each 100 cigars that are made. *Commissions* are a certain percentage of the price of the commodity sold.

An automobile salesman may receive a certain percentage of the price of the car for each one that he sells, or an insurance agent a percentage of the premiums paid on the policies he sells. Sometimes a worker is paid a definite salary plus commissions. *Fees* are wages paid for definite service. A doctor may charge $3 a visit, a dentist a certain amount for each filling, a lawyer whatever he thinks you can afford to pay him for what he has done for you.

Workers sometimes receive a special present at Christmas or a bonus or a share of the profits when business is good. Such payments, from the employer's standpoint, are really extra wages, and the employer may intend to pay them regularly; but he may prefer to keep them in this form so that he will be under no legal obligation to pay them if business has a poor year.

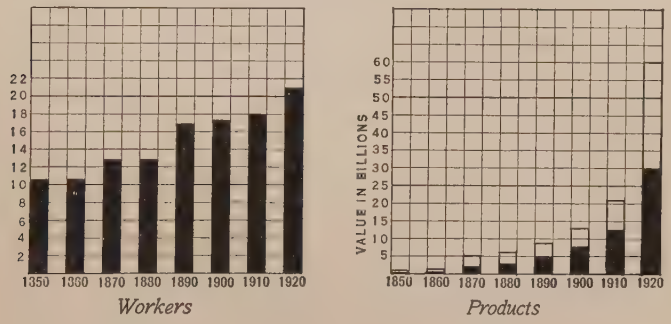
For each of the above forms of payment, list five kinds of business in which that one seems to be the fairest. What is the object of paying some workers salary plus commission?

The same sort of influences controls wages that controls other forms of returns. Wages are determined in part by the amount and quality of service rendered. Supply and demand also enter in, as usual, for wages, after all, are simply a price paid for labor. Competition has a great deal to do with wages. When there are a great many people unemployed, those who will work for the least amount of money or who can work best, will get the first available jobs; and when many want work, wages will be low.

If available workers are few in proportion to the demand, they may expect high wages. The labor union, as we have noticed, seeks to obtain a monopoly of the supply of workers, and thus keep the supply under the control of the union. Unions commonly want a fixed scale for each group of workers. Such a policy makes it more difficult to reward workers in proportion to the quality of their service, but the unions think it more important to prevent employers from

setting an unreasonably high standard of work or fixing wages too low.

Why do the families of some workers in poorly paid industries keep on in the same occupation? Make a list of ten occupations in which the compensation is relatively low, and ten in which it is relatively high, with reasons in each case.



THE PROGRESS OF MANUFACTURING IN THE UNITED STATES

The solid columns at the left show the percentage of wage earners in the United States engaged in manufacturing as recorded by each census beginning with 1850. Notice the steady increase in the proportion of workers thus employed. The columns at the right show the value of manufactured products in the United States at each census in billions of dollars. The black portion of each column represents the value of raw material. The white section shows the value added by manufacturing. Comparing the two diagrams, what conclusion would you draw as to the tendency of wages in the manufacturing industries?

117. Prices and Wages. — We do not care so much if prices are high, if we have money to pay. When a millionaire buys an automobile, the price is of no concern to him; he looks the car over from the viewpoint of the pleasure in its use or the service it can give him, knowing that he can pay the price asked. If prices are low, we do not need high wages in order to live in reasonable comfort. We have two possibilities to consider whenever unsatisfactory living conditions exist — the increase of production of the things we need, thereby reducing the prices, or by some means raising our wages to meet the increased prices.

Experience shows us that wages seldom advance at an equal rate with prices. Prices go up first and wages follow afterward, unless the wage earner has some special means of bringing force to bear on his employer. The Bureau of Labor Statistics announced that between 1913 and 1918 the retail prices of food products went up 68 per cent, while during that period wages increased only 30 per cent. In reality a dollar in 1918 would buy not more than two thirds as much as in 1913. The cost of living had increased tremendously in that time, but wages had advanced only about half as much.

The man on a salary has even more difficulty than the daily wage worker during a period when prices are going up. It is easier to get the wage of a worker by the day raised from six dollars to eight dollars than to secure the raising of a salary from $1800 to $2400 for a worker who is paid on a yearly basis. The salaried man is usually in a profession where organization is difficult or is frowned upon. Personal merit and public opinion are about the only factors which can be depended upon for advancement. Fluctuating money standards are also particularly hard on families that have to live on the income from investments. Their income is fixed in dollars and if the purchase value of the dollar goes down, they may be reduced from comfortable circumstances to poverty. A man once thought that he would retire from active work when he had saved up enough to give him an income of $900 a year. Now, that would not pay the rent of the house in which he lives.

In attempting to make wages catch up with prices, a line of action may be started that is sometimes called the " vicious circle." We will illustrate it along one line only. Suppose the price of lumber goes up; then the cost of building advances. The price of new houses is higher and the people who own old houses to rent increase their rents in proportion to the increased rent of the new houses. Carpenters and other workers who live in these houses then strike for higher wages.

Suppose building contractors grant the demands made upon them and increase the wages of the carpenters and the other workmen; then they add the increased wage cost to the cost of building. The house-owners raise the rents, therefore, to the people who occupy them, and the carpenters then want more money to meet the "high cost of living." Where is that going to lead us?

Where shall we stop? Perhaps we had better say, where should we stop? The ideal answer would be somewhat like this: the point where he who contributes toward production gets his share for what he puts in, and where nobody tries to take unfair advantage of any one else. Very much "ideal," perhaps you say; but that is no reason why we should not attempt to attain it.

Is there any advantage in a high standard of wages, accompanied by high prices, as compared with a low wage standard and low prices?

118. Interest. — The return that goes to capital for what it has done for production is known as *interest*. In the olden days, it was thought that the Bible forbade the receiving of money in payment for the use of money. One of the reasons why Jews were so badly treated by Christians in medieval times was that they would accept interest, or "usury," as it was formerly called. Usury to-day has come to have a special meaning, and is applied only to rates of interest which are so high as to be unreasonable or illegal.

Capital must get a return in the form of interest or it would not be invested. People who cannot gain something by making their money work for them do not have the inducement to deny themselves the pleasure of spending their wealth at once. If they could be compensated for it, however, to make up for the loss of pleasure in spending it now, they would be willing to forego that enjoyment.

The rate of return on capital varies at different times and places. Three influences in particular help to determine

what the rate shall be. All of them may operate at the same time.

(1) The relative value put upon future use of wealth as compared with present use varies. Primitive people and ignorant people think very much more of the enjoyment of a thing right now than of the pleasure it may give them in the future, like the child who wants an ice-cream cone every day instead of saving his nickels until he can buy a pair of skates.

Courtesy of Ford Motor Company

A Form of Capital Investment

This boat, the *Henry Ford II*, is delivering lumber at the Fordson plant. The Ford company supplies in part its own means of transportation. Why would the Ford company tie up money in building such boats?

In civilized lands this value set upon future use of wealth is much higher than in lands that are less progressive and advanced. In younger or less civilized countries, therefore, the money owner wants much more as return for postponing present enjoyment, and the interest rate is much higher.

(2) In new or unprogressive lands, too, the amount of capital in existence is very much less than in older districts. Here the law of supply and demand appears again. The larger the amount of capital available, the less will be the

return which it can command. We see this difference in our own country in comparing the rates of interest which prevail on the Atlantic coast with those in the interior or the far West.

(3) Another affecting element is risk. Where money is invested in an industry that is not on a sure foundation, the holders of that wealth will demand a larger return than in an industry established upon a solid and permanent basis where the risk is much less. About 1923 the United States government could borrow all it wanted at $4\frac{1}{4}$ per cent, while Germany and Austria, with their financial systems wrecked, had to pay 7 per cent even though they were backed by the League of Nations.

When there is no capital, of course there is no interest. One might ask, therefore, does interest come out of rent or out of wages? The answer is, out of neither. Labor and land alone cannot carry on any modern industry — capital is an absolute essential. It demands a return for itself because it gives to industry something entirely separate from what land and labor contribute. Therefore, with the added impulse given industry, an additional return is gained which the holders of capital claim as theirs.

Why is interest high in Nevada and low in Massachusetts? Why is it generally higher in the United States than in western Europe? Why do "loan sharks" charge high rates? How may a person know when he is asked to pay too high a rate of interest? When a corporation cannot pay dividends on its stock, has capital done nothing in that business? What may be wrong? Why were interest rates so high in the years just after the World War? At that time a New York Central Railroad 4 per cent bond could be bought at 70 (par value 100). Did that fact mean that people did not trust that railroad?

Perhaps you once learned the definition that "interest is money paid for the use of money." If you did, forget it. Interest is very often not paid in money — it might be paid by check, for instance. If your father borrowed $5000 to help pay for a house, he probably didn't get $5000 in cash.

He got a credit on the books of a bank or a building-and-loan association. What he wanted was not $5000 but the right to be a house-owner. If he borrowed $5000 to use in his business, he wanted not $5000 but the new goods or improvements in his shop which he could get with the $5000. Perhaps $50 of this sum was your own savings which had been deposited in this bank — the product of past industry, somebody's industry, anyway, used to produce goods. So interest is the compensation for the use of somebody's capital, and that capital is expressed in some form of goods. What is being borrowed, then, in the last analysis, is goods.

Sometimes we pay interest without realizing it. If we have paid $15,000 for a house, that $15,000 cannot be used for anything else. So we are sacrificing the return that we might secure by lending or investing the money. By so doing we avoid paying a sum each month to the landlord, and we may be happy in doing so. But the 5 or 6 per cent that our $15,000 might otherwise obtain should be charged up in our reckoning as " imputed interest."

Just as we may prefer to put our savings into a house because we get greater satisfaction that way than any other, so business men often wish to borrow because they think they can make bigger returns on $10,000, for instance, in their own business than they will have to pay as interest on the $10,000. The D. L. & W. Railroad once borrowed $12,000,000 to straighten out curves and reduce grades in its line, because it thought it would save in the cost of running its trains over the improved tracks more in a year than the interest on the $12,000,000.

119. Profits. — It is easy to justify such returns as rent, wages, and interest. Is there another element which rightfully claims a share of the products of industry?

By *profits* we mean the returns that go to the possessors of managing ability for what they have done in production. Like the word " rent," " profits " is also used in various

senses. Commonly, we think of it as the amount that remains in the possession of a business man after his expenses have been paid. But that includes some items which would be very much like interest and probably some that would really be the returns from the use of land or labor. The keeper of a small store will measure cloth or put up sugar, for instance, and will probably not only manage his business, but have his own savings invested in it. Take out of his total returns what his labor and savings would earn him if he were otherwise employed, and what is left would be his economic profits. And that is what we want to talk about here.

In the economic sense, profits are simply the rewards of managing ability as distinct from the rewards of any other kind of service. If profits were not set apart as a separate return, they would be included partly under the head of interest and partly under the head of wages. Some economists, indeed, class them as a form of wages, because management is simply a form of mental labor. Of course a proprietor who works in his own establishment is entitled to wages for the time and energy expended, just as any other worker would be. But in addition a manager expects a return for the responsibility he accepts and the planning and supervision he contributes to the business.

The theory which is used to justify profits is that capital is a dead thing and, in order to be of service, must be handled. The capitalist who manages his own business will therefore claim a return in the form of interest on his capital, and also in the form of profits for his management of the capital. This managing ability does not always possess capital. Some men of wealth are content simply to allow their wealth to be used as capital, while other men assume the responsibility of managing it.

The amount of profits will depend upon the ability of the manager. If he has only enough ability to do just as well in managing his own business as in working for some one else,

he will get no profits at all. The extent of profits to any manager will depend upon the extent to which his ability is greater than the ability of the person who is just able to manage a business. So managers vary from "no-profit ability" to real genius, which receives a very good return.

Wide World Photos

THE DINING ROOM OF A RICH MAN

F. W. Woolworth built this mansion out of the profits from little things. It was his managing genius that realized the possibilities of the "5 and 10" and was able to make it a success.

In every business, profits may vary widely. Every year a considerable number of entrepreneurs quit their undertakings and either close up their business or dispose of it to somebody else. In the same business, even, profits may differ much from year to year. The effects of the various stages of the business cycle are often marked. Even at the highest point of a supposed prosperity period profits may not be exceptional; for then John Smith, the worker, may be getting high wages, taking more time off from his work, and

hence interfering with the general efficiency of the plant, and James Brown, the employer, may take a two months' vacation without leaving anybody behind to administer the business efficiently in his absence.

Even when profits seem high, the stockholders of a corporation do not necessarily get big returns. Part of the profits may be put back into the business to improve and enlarge it. Other parts are kept in a surplus fund to meet possible emergencies. On the other hand, corporations sometimes issue big stock dividends and then by paying regular dividends on all this inflated stock conceal the real size of their profits.

The very fact that not until recently have economists devoted much space to profits as a separate item in their writings may suggest that this item has been growing in importance. On the other hand, perhaps we are just appreciating how significant it is. A capable entrepreneur could probably earn a good salary working for another person and could invest his savings in government bonds and get a fair interest without any worry. He is willing to go into business directly for the added inducement of profits.

The entrepreneur makes possible the bondholder and employs the laborer. He takes all the responsibility and all the risk of management. If the business goes wrong, the fault is his. Not so long ago, the ukelele was a popular instrument. One proprietor stocked up well, looking for a big trade. All at once the interest in the "uke" faded out, and this manager had three thousand of the things on his hands with no buyers. Perhaps he shouldn't have been so reckless, but mistakes in judgment of far more serious character have been made by supposedly intelligent entrepreneurs. We cannot well blame the entrepreneur for feeling that he is entitled to returns beyond those earned by his own labor and capital.

What qualities are necessary to a good business man? What are the chief risks assumed by the entrepreneur? Can profits be regulated by law? If you say yes, should they be? Can one man *earn* a million dollars?

Suppose a working man reads this section and offers this objection: "It is not fair to assert that the entrepreneur takes all the risks. If I work for him and business is bad, he will lay me off and my earnings will stop. I take as much risk as he does." To what extent would you agree with him?

A person holds a position as teacher in a public school. He also writes books and is paid by a percentage on their sale. He has a considerable part of his savings invested in bonds. Is he a capitalist? an entrepreneur? a laborer? To what extent is his income properly to be considered rent, wages, interest, or profit?

120. Distribution for the Farmer. — The problems of distribution in the country are just as many and just as serious as in the city. The farmer, if he owns his farm, possesses the land and the capital, and contributes the management and some of the labor. If he is a renter, he contributes the management and the labor only. In the farmer's case, frequently all of the four returns might go to the same person or at least to his family. Very seldom is this possible in the city.

If this is true, why doesn't the farmer become an industrial tyrant? One reason is that he does not control the transportation of his products to market. He could, if he combined with enough other farmers, organize a great union or alliance, and agree perhaps upon a policy of production that might force the city into submission to him. But his control is limited by the fact that the operations of the farm cover such a long period that the results of a farmers' strike might not be felt until months after the grievances had been corrected. Besides, the farmer consumes some of his own product, and since he will raise enough to feed his own family anyway, he is likely always to do more than that. In being able to do this, he has a clear advantage over the city worker.

Another difference between city and country is that farm labor as a class cannot be easily organized. It is very irregular. It cannot so easily insist upon fixed hours of work. The very distance apart, geographically, of farm workers

makes united action on their part much less easy than on the part of hundreds or thousands who go in and out of one factory every day.

The farmers receive lower returns in proportion to their importance than any others of the world's workers. In 1923–1924 the average net income of a farmer was $764. It

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Some Day

The artist, whose cartoon in the *Saturday Evening Post* is reprinted by special permission, is looking ahead to the time when the farmer will have a voice in economic affairs corresponding to his real importance. When, if ever, do you expect to see this situation realized? If not, why not?

increased to $876 in 1924–1925, but in 1927 the earnings of the farmer decreased 10 per cent as compared with the returns for the previous year. Farmers are at the bottom of the income tax list with about three out of a thousand reporting an income of $2000 or more. These facts show that their earnings rise and fall like those of other workers, but almost never supply a high and rarely more than a moderate income.

The real income of the farmer, though, is higher than these figures would indicate. Why is this?

The farmer thinks he gets too little, and can you blame him? At times he makes himself felt as a power in politics and otherwise in many states. After all, he, even more than the factory worker, is the backbone of the nation; and it is but right that he should demand and receive consideration beyond that which he has been getting.

121. Coöperative Marketing. — Is it not possible that some of the costs of marketing can be saved and a fairer distribution of the returns secured if the original producers can work together in disposing of their products? Middlemen render some service, as we have seen, else they would not exist. But perhaps they get a return that is out of proportion to the value of their work.

The small producer has always had much trouble in getting his goods to the distant market. He does not know the retail dealers upon whom he must depend for getting his goods to the public. He does not even meet these retail dealers. He is obliged to depend upon the commission-men, who may or may not give him what his crop is worth. At one time, it was discovered that Michigan farmers were getting three or four cents a quart for strawberries when the same berries were selling in the cities at forty and fifty cents. Who got the difference? Undoubtedly, if the producers could handle more of the business themselves, not only producers but consumers could get the advantage of fairer prices.

A notable example of coöperative marketing is seen in the California Fruit Growers' Exchange, whose oranges, lemons, grapes, and similar fruits are widely advertised and sold to good advantage. The Hood River Association of Oregon apple growers, and the various milk producers who ship milk to our cities, are other examples of this kind of activity. Indeed, coöperative marketing has been urged by some as the only remedy for many of the evils from which

the farmers are suffering. Those who do not want the government to attempt to help the farmer by guaranteeing prices of farm products are willing that the government should lend advice and assistance to coöperative societies. There are now several thousand of such organizations, most of them

A Phase of Coöperative Marketing

The California Walnut Growers' Association has its own plant for getting its products ready to ship.

concerned with the marketing of grain and dairy products, and found in such states as Minnesota, Iowa, and Wisconsin.

Do you think the parcel post could be made useful in helping the farmer market his products? Can you mention any other products than those of the farm and the ranch which might be better marketed by this method? Do you know what coöperative marketing did for the Danish farmer?

122. Coöperative Consumption. — As with selling, so with buying. If consumers could work together and take advantage of the lower prices resulting from buying in large

quantities, they might get a larger division of the returns, and have more to spend or to save. This sort of effort is known as *consumers' coöperation or coöperative consumption.*

This calls for coöperation by the consumers to get food and clothing and other goods by buying them directly from the manufacturer instead of from the retail dealer. It reduces the cost of living by doing away with the retail dealer's or middleman's profit. If one can lessen his expenses, he is

Ewing Galloway

A Rural Coöperative Establishment

There are twelve branches of this society. Its members sell their crops and buy their supplies coöperatively.

doing as well as if he added to his wages. Some think this is not fair, because the retail storekeeper does the people the service of creating utility of place for things they want. But the storekeeper is too often in business merely for his own good and not with the idea of supplying the community's wants at the lowest possible price. True, one dealer seldom has a monopoly of goods because there are so many retail stores; but, though a few of the thrifty among us do walk three or four extra squares to a store where we can get things

more cheaply, most of us prefer to pay a few cents more on the article and buy it at the store just around the corner.

" The Equitable Pioneers of Rochdale " was the name of the first successful consumers' coöperative union formed. A few poor weavers living in Rochdale, a little town in England, conceived the idea. Each contributed an equal sum of money, and a small store was opened which sold necessities on a cash basis to the members almost at cost. Checks showing the amount of each sale were given to purchasers, and after five per cent dividends on the stock had been paid out of the profits and two and one half per cent had been put aside for an educational fund, the rest was divided among the members in proportion to their purchases. Any one could buy at the store, but the gains were divided among the members only.

There were many others after it, such as the English Wholesale Society, which operated all over the world, and the Scottish Wholesale Society. Some of them, especially in the United States, were not very successful. Sometimes they failed because of disagreement among the members; sometimes because of the lack of sufficient capital; and sometimes because of the dishonesty, inefficiency, or selfishness of managers who actually operated the stores. The lack of capable managers is probably the most common reason. A coöperative society may find it hard to get them because it does not want to pay them as much as they could make doing business for themselves.

If worthy officials could be assured, this system of consumers' coöperation would be a great benefit to the labor element of the world. It is really too bad that we in the United States have not yet learned sufficiently the lesson of coöperation. We have laid so much stress on independence and private initiative and on everybody's looking out for himself, that we have failed to see the other side of the picture. Besides, for a very long time our people were living in scattered rural communities or small towns and could not easily

buy and sell in common. Then when big cities grew up, their population was made up of people of many different races, who did not readily harmonize. England and Scotland are mainly composed of people of one race living to a much greater extent in cities and towns. But even in our cities, people who try to cut their living expenses seem to prefer " bargain " sales and 5-and-10-cent stores rather than coöperative purchasing.

Could a coöperative lunch society be successfully operated here? What questions would you have to consider before deciding? Does your answer suggest anything in regard to the problem in general?

Distribution is evidently a very complicated problem. Land, labor, capital, and management are all entitled to returns for what they do in production. But when we try to separate the proper amount for *rent*, *wages*, *interest*, and *profits*, we find it difficult. The very basis on which it is done or should be done is not a matter on which all economists agree. That each factor should receive a return proportioned to its productivity seems sensible. In specific instances, however, the acquisition of monopoly power or at least extensive control over the source of supply seems to tell the story. Careful thinking is necessary in considering the matter, for almost every one of the terms we have to employ has a special meaning in economics. Quite likely we have much to learn about the means by which fair distribution can be brought about. More coöperative effort may be one solution.

Special Studies

The Farmer as a Business Manager
Wages in this Country and Other Countries
Interest Rates in the United States
The Rent Problem in Large Cities
A Study of the Difference in the Rate of Rents between a Large Community and a Small Community
A Study of the Differences in Wages between a Large City and a Small Community
Resolved, That a Gradual Adoption of the Single Tax Principle is Desirable
The Elements that Enter into the Returns Received by a Dentist; an Elevator Operator; a Bank Clerk; a Bank President; a Farm Laborer; a Carpenter

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Carver, *The Economy of Human Energy*, Chapters 12, 13
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CHAPTER XIII

STRUGGLES AND SETTLEMENTS BETWEEN LABOR AND CAPITAL

That he that earns and he that pays
Shall stand together through the days;
Then all shall find and make it known
That no man serves himself alone;
Then judgments shall be wise and just
And candor shall supplant distrust.

— GUEST

I don't care whether a man is a banker or a bricklayer; if he is a good banker or a good bricklayer, he is a good citizen. — ROOSEVELT

In America, the home of democracy, where we are so sure that all men are created equal, it cannot be that there is any strife between classes or that the struggle over distribution has led to anything worse than polite discussion! But let us not be positive. We, of course, have not the distinction between the titled landholder and the landless peasant, from which other countries have suffered, but even in colonial days there were rich and poor.

The age-old fight between Capital and Labor — between those who have and those who have not — is still being waged to-day all over the world. Our people could hardly expect to escape it. Is it not true in America, as elsewhere, that "Money talks"? We certainly do judge our neighbors by their money, the kind of house they live in, and the make of car they drive. Let us see if we can discover how some of these differences arose among people, and what has been done to remedy unpleasantness and evil. What is the nature of the disagreements that have arisen? Is there any hope of peace and harmony?

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123. Competition and Ill Feeling between Economic Classes. — Cartoonists usually represent capitalists as showily dressed, corpulent men with silk hats, smoking black cigars, and laborers as rather slouchy workingmen

dressed in overalls. Exaggerated? Of course. But each group, perhaps unconsciously, thinks about the other with at least a little of that impression. As a natural result, there is bound to be class consciousness and jealousy. The rich man sometimes forgets or does not want to remember that either he or his relatives once worked to earn the wealth which he now displays. The poorer man envies his more fortunate brother and is convinced that all is not fair in this world. In this frame of mind he is easily open to ideas that do not make for peace and security in the community. Laboring men resent the feeling of inferiority forced upon them by those who think they are superior by reason of money, birth, or talent. Can you wonder at it? Would you like to think of yourself as among the "lower classes"?

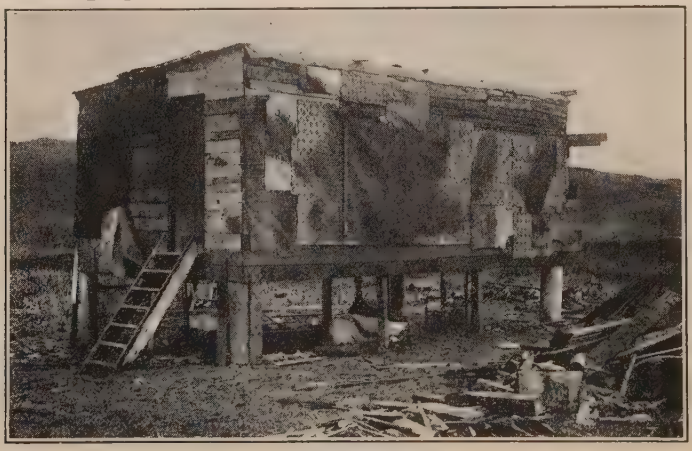
Wide World Photos

A Likable Capitalist

Charles M. Schwab, famed steel magnate of Homestead and Bethlehem. He is shown on the grounds of his palatial estate at Loretto, Pennsylvania.

When a family's income is small in comparison with the incomes of other families in the community, certain conditions usually arise. Children of the low-income families are taken out of school at as early an age as possible, so that they can go to work and add to the family's treasury. Girls accept employment in places where their health and morals are in no way promoted. Parents have little leisure for recreation or self-improvement. Such pleasure as they have time

for may be cheap. The family so situated cannot hope to gain a high social standing in the community, and as a result it may acquire a sour attitude toward mankind in general. The small income is harmful to the community as well as discouraging to the distressed family.



A Result of High Rents and Poor Wages

Contrast this poverty-stricken dwelling with those pictured on pages 320 and 331. The occupants, a father, mother, and several children, were forced to live here because of high rents. Is it any wonder that bitterness and envy thrive in such surroundings?

124. The Rise of Industrial Distinctions. — There was a time when an employer had his "hired help," few in number, with whom he had an intimate personal acquaintance. He was the "boss," but each of his men could hope to be a boss himself some day. Probably the employer himself had made his way up from the ranks and knew just how the "man in the overalls" felt about it.

Then there came a change for which the employers were not wholly to blame. The Industrial Revolution and the introduction of the factory system brought evils that steadily transformed the relations between employers and employees. Industry progressed, towns grew into cities, neighbors were no longer necessarily acquaintances, work became impersonal,

and everything was done for money. In the factory, the employer could not possibly know all his help. He grew apart from them, regarded them as so many "hands," parts of the machinery, and acted toward them as such.

The individual worker himself gradually lost his individuality. His opinion counted for nothing against what the employer said, and if he was not satisfied with the existing conditions, the most he could do was to quit and work somewhere else. The laborer was sure that the employer was squeezing every bit he could out of him for as little pay as possible, while the employer was just as certain that the laborer was doing as little work as he could and demanding as much pay as he dared. Each was inclined to forget that both are essential to industry and that neither can get along without the other.

Is it better for the workers that employers should be few or many?

One reason for some of the discontent is that more than one factor in production is frequently controlled by the same person or group. In a certain business, for example, the employer may own the land which the business makes use of, may own the capital invested in the business, and may actually manage the business himself. Three of the four elements in the total returns, rent, interest, and profits, will therefore be taken by him. The laborer sees this. Even though the laborers as a whole may get more, even 60 or 70 per cent of all the returns, the share of the employer with his rent, interest, and profits is so much greater than any one laborer's wages that the latter thinks something is decidedly wrong.

If a laborer is getting only $1000 a year, he is getting as much for his contribution to the industry as $16,666 of capital earns at 6 per cent — and 6 per cent is a pretty fair dividend or interest to be coming in year after year. Which would do more damage to the industry, to be deprived permanently of one worker's labor or of $16,666's worth of machinery, factory floor space, or some other form of capital

goods? This is of course a cold-blooded, mechanical way to put it, and not even the economist should lack a good share of " the milk of human kindness," but it might help to remove a little of the poorly-paid workman's sense of bitterness and injustice if he could realize that from the strictly financial standpoint he is probably getting a pretty fair percentage return on the money value of what he contributes to the industry. It is equally true that an employer

Wide World Photos

AN OLD-TIME HORSE CAR

This was in use back in 1868. Contrast the duties of this motorman with one on a modern car. This man was in the service of this company for 47 years. Can you estimate the money value of his services to the company?

will hardly ever hire a worker unless he expects that worker's output to add to the value of the product at least as much as his wages. Whether the vice president who draws down $25,000 a year is contributing twenty-five times as much as our $1000 workman is another question.

What do you think of such comparisons? Can a man be fairly compared to a sum of money?

No well-established country is made up solely of the rich and the poor. In every strong nation we find a large

middle class. The average business man, the better kind of skilled tradesman, the professional man — lawyer, clergyman, teacher, together make up what the French call the bourgeoisie. Sometimes, it is true, we find in this group people who seek to imitate those who are wealthier and so get into difficulty sooner or later. Also in this group are usually the men and women who do much to make the community what it really is on the better side. They are not satisfied with a mere existence. They want more than just absolute necessities, but knowing their own resources, they work and save, and spend with considerable thoughtfulness. Their judgment on the whole is usually safe and sound.

Do you think that education makes workmen more contented or less? Is equal wealth or equal opportunity more important for our workers? Is a community better off in which it is relatively easy to pass from one industry or social class to another than in one where such distinctive lines are closely drawn?

125. Problems Created by Capitalists. — For some of the problems of to-day we can hardly avoid placing most of the responsibility on the people whom we commonly call capitalists. Millions of people have saved a little, but a few people have accumulated millions. "Them that has, gits," said David Harum in the story. These few have sometimes got control of more than their share of the money on which our system of exchange is based. They have cornered markets, not for long, it is true, but long enough to drive some men to suicide and more to bankruptcy. They have created artificial sales for stocks and forced prices up or down to suit a selfish purpose. They have sought to secure a monopoly over some article and thus put themselves in a position to charge an unnecessarily high price for it.

Besides, unfortunately, many men can be influenced by money, and the men who hold government offices are no exceptions. They have been known to accept bribes to use their vote or power in the making of laws for the good of the person or company who pays them. Lobbying in behalf

of special interests has sometimes been carried on to such extent as to become a public scandal.

Too often " big business " has disregarded the human element in its greed for wealth. This led to the soul-killing child labor and the poverty standard of the wages of women workers. Unsanitary working conditions prevailed unques-

Courtesy of Richman Brothers Company

THIS IS NO SWEAT-SHOP

These workers are evidently kept busy but the work-shop is obviously light and well ventilated. They seem to be comfortable and contented.

tioned far too long. It is within the working career of many a living workman that big, airy, and well-lighted workshops have been replacing the old dimly-lighted, close factories or " sweat-shops."

We need not think that employers and men of wealth deliberately chose to do these unpleasant things. Sometimes they did not know that they could do any better. Sometimes they felt driven to it by unscrupulous competitors. Neverthe-

less, the things were done. Economists even set forth the theory known as "the iron law of wages," which declared that it was in the nature of things for wages to settle at the bare subsistence point. They said, in other words, to the average worker, "All you can hope for is to get enough to keep you alive." Not only the "bitter cry of the children," which rent the heart of Mrs. Browning, but the unuttered sufferings of down-trodden men and women were going up to God in heaven in appeal from the thoughtlessness and greed of an industrial system which had enslaved both employers and workers.

Is home life to-day as much more comfortable than it was a hundred years ago as factory life in general is more safe and healthy? Do workers always realize when they are well off or the opposite?

126. The Laborer's Struggle for Improvement. — The factory system had one advantage from the laborer's standpoint, however. It gathered into one place large numbers of men who did the same work. It was not long before the men realized what power lay in this condition, and they began to organize unions. If these organizations could control the labor supply, they could force the employers to give the workers higher wages, better hours, and the promise of reasonable protection from injury. They grew slowly at first. In England, the old degenerate gilds had just been abolished in 1814, and it seemed undesirable to revive them or anything like them. English laws at first declared trade unions to be conspiracies against freedom of trade, and imposed harsh penalties for belonging to them.

But these laws were abolished in 1824, and side by side with the various political reforms that came about during the nineteenth century, steadily grew the cause of trade unionism. The Liberal party at first had the sympathy of the labor element, but in the twentieth century a distinct Labor party came into being. It became second or first among the English parties and has already had one Prime Minister, Ramsay MacDonald.

As similar conditions arose in the United States, similar results followed. We have already remarked that the industrial changes in this country were not so sharply revolutionary as those in England, because here there were no strong industrial customs to be overturned. Industry progressed more gradually and easily, economic conditions were not so bad, and it was not until after the Civil War that the need for trade unions of any extent arose.

The first unions were local confederations, the men of different trades forming separate unions. But just as the individual states united to form one nation, realizing that thus coöperation would be established among them and the interests of all better looked after, so the separate trade unions tended toward union in one organization.

The National Labor Union, established in 1866, was the name of the first association of this kind. It was a very loose organization of trade unions and came to its end through a combination of hard times and bad judgment. It allowed itself to be linked with a movement to keep the greenback currency indefinitely, and the panic of 1873 made movements for higher wages impossible for a while. The "Knights of Labor" rose up in its place. This organization continued to grow until it contained 730,000 members in 1886. But it also got mixed up in politics, much to its detriment.

Its place was taken by the present American Federation of Labor, organized in 1881. The earlier organizations had been made up of several groups into which workers in any trade were admitted; but the American Federation of Labor was a real "federation" of separate unions, each of whose members all belonged to the same trade. By really representing the labor interests of the nation, and by keeping out of political pitfalls, it has grown until its membership is now 3,000,000 or more. Its power at times has been great. Samuel Gompers was its president for over forty years. At his death, his place was taken by William Green.

Is it for the interest of the laborer or of the community that labor organizations should go into politics as a distinct political party? Why was a federation of separate unions more successful than a national union composed of workers as individuals?

There are several types of unions. *Trade unions* are composed of men or women employed in a single type of work, as the Bricklayers' or the Plumbers' Union. *Industrial unions* are made up of all the trades connected with one industry, as the United Mine Workers of America. *Labor unions*, strictly speaking, are composed of workers of different occupations, united either as individuals or as associations of trade unions. The American Federation of Labor is an example of this kind. We often speak of "labor unions," however, rather loosely, as meaning any kind of workers' organization.

127. Labor Union Objects and Methods. — It will be worth while to look into the specific reasons why unions are formed and the methods by which they seek to attain their ends. We may summarize their principal objects briefly as follows:

(1) To gain the power that comes through organization. One worker is of little consequence as long as he is one, but a thousand ones acting together can often accomplish much.

(2) To obtain improved conditions of work, shorter hours of labor, and higher wages. Standard wages have been established and a man who formerly worked twelve hours a day now gets the same wages or more for eight hours of work. Undoubtedly this not only improves the workers but benefits the nation as a whole. Better living conditions in general now prevail among the workers. Modern factories have plenty of air and light and are equipped with their own cafeterias and recreation rooms.

(3) To supply funds which a member can draw upon in case of need, either when out of work or during a strike, or when sick or disabled; and to provide social acquaintance

or educational advantages somewhat after the fashion of lodges and clubs. Not all unions undertake to do all these things. In some cases unions seek to set up the *check-off;* that is, they want the employer to deduct the membership dues from a worker's pay before he gets it, and pass the amount over to the union.

(4) To influence public opinion. This may be done by resolutions, discussions in newspapers, public meetings, and sometimes by united action at elections. Prominent labor leaders have often announced their support of certain candidates for office, but the results of the elections have seemed to indicate that not all union members followed their leaders. No separate political party has been formed as in some European countries.

(5) To control the supply of labor in an industry. Unions wish to limit the number of apprentices admitted to learn a trade. Many of them also demand the *closed shop*, meaning a policy which limits employment to union men only. The motives for this policy are two: to acquire a monopoly of the labor supply in specific trades, and to insist upon certain standards of work.

Might the closed shop be a justifiable policy in one establishment and unjustifiable in another?

Labor unions sometimes oppose vocational training in the schools. Why? Is such opposition reasonable?

One of the most powerful weapons unions hold is *collective bargaining*. The officers of the union deal directly with the employer for the benefit of the members of the entire union, instead of each individual's fighting it out for himself. The union maintains that this is beneficial for all parties concerned. It eliminates for the employer the trouble of interviewing several hundred men, and on the other hand, it secures better results for the men because together they can make their demands much more effective than could any one person.

Mention other forms of collective bargaining than those involving discussions of employers and employees over wages, Is equality of bargaining power between the two parties likely to be common?

Another powerful weapon employed by the union is the *strike*. When a strike occurs, all the members of the union are expected to refuse to work for their employer until they get their own way or until some kind of settlement

Wide World Photos

A Strikers' Meeting

A strike agitator is addressing a mass meeting during the progress of a strike in a Colorado coal field. Do you suppose these men wanted to strike or were induced to do so by such leaders as the speaker?

is reached. Sometimes another union with absolutely no grievance of its own will declare a *sympathetic strike*, so as to force its employer or employers to influence another employer to comply with the demand of his employees.

A *primary boycott* is a combination of persons to stop business dealings with a particular employer. They will not use that employer's products or have any other dealings with him. A *secondary boycott* is a refusal on the part of the strikers to deal with those who have anything to do with the

one being boycotted. This usually unfairly hurts innocent people who have no interest in the strike. To enable union men to know what employers are considered hostile to union labor, the " labor " newspapers sometimes publish lists of employers headed " Unfair list " or " We don't patronize." A less unpleasant way of getting at the same end is to use the

PICKETERS

These people were strikers in a mill controversy at Passaic, New Jersey. The policeman is trying to see to it that they do nothing which any citizen would not have the right to do.

union label on goods produced in shops that employ union labor.

Picketing is also resorted to by the strikers, and as long as the " pickets " do not injure other persons or damage property, it is lawful. Sometimes pickets simply argue peacefully with workers who prefer to stay on the job. But often picketing consists in walking up and down before a factory or shop, shouting and carrying signs in an effort to persuade others to leave the place. Sometimes riots and loss of life and property occur if pickets and policemen or militiamen

come into conflict. A person who goes to work while the strike is on is labeled a *scab*. Sometimes "scabs" must work to keep themselves alive and to support their families, but some men make a business of letting themselves be hired to go from place to place to serve as strike breakers.

Unfortunately, bad results sometimes come from measures designed in good faith to protect men from injustice. There are always men who will abuse a good thing. The better worker may receive the same remuneration as the lazy, inefficient man who works beside him and who thinks that it doesn't matter how hard he works, because the union will see that he gets paid anyway!

Besides, there is the policy of limited output. For instance, a certain bricklayer might be able to lay 900 bricks a day without hurting himself. Suppose, however, he deliberately lays less than that, maybe 700, so that there would be work there for some one else to do. What results? When the employer pays the wages of an extra man, he will charge more for his work as a whole, to pay the cost of the extra labor. The person who owns the building (let us say it is an automobile factory) will have to pay the cost of the extra labor because he will be charged more for the whole job. When he sells an automobile, the price will be a little higher to cover the cost of the additional labor. Therefore, the people who buy the automobiles really pay the additional charge, and it may be the bricklayer who buys one. Particularly in the manufacture of necessities, such a policy is anything but thrifty. One can justify it only when a greedy employer tries to set up the most that the best man can do as the standard on which he will base a decent wage to any workman.

Too often also, unions, whether intentionally or not, draw tighter the lines of class distinction. Instead of serving to bring Labor and Capital together harmoniously, such action has an effect exactly opposite to the one desired by lovers of justice and fairness.

What instances of the use of any union methods may be studied in your community? Was much public discussion or excitement aroused? What in general is the feeling of your community toward labor unions? Why do unions insist on being allowed to have "representatives of their own choosing"? Just what might be involved in that phrase? Should a good workman deliberately refrain from doing all that he is capable of, for fear that he might thereby set a standard too high for the average worker to meet without injury?

Does the workingman have greater or less opportunity for self-development under the prevailing industrial system than before it came into existence?

128. Employers and Labor Controversies. — Employers often have very positive opinions about unions and their policies. Usually they object strenuously to the closed shop, declaring that the only fair policy is the *open shop*, where a man is employed without regard to his membership or non-membership in a union. They assert that it is unfair to them and unjust to the worker to set limits to the amount of work a man may do or the number of people who may enter a trade. Sometimes an employer will accept a *closed shop with open union*, in which he may employ any one he wishes, but with the understanding that the worker will join the union when he begins work. On the other hand, some employers maintain a *non-union shop*, in which no union man can get a job.

Employers are not necessarily opposed to collective bargaining, but they have no use for the paid " organizer " who comes into establishments where he is not employed, and stirs up dissatisfaction among the men in order to get them to form a union that he can control.

They have also found it desirable to form unions among themselves. Sometimes they call such an organization simply the Employers' Association. Sometimes an association not formed particularly to fight unions thinks it necessary to do so in certain emergencies, as the National Association of Manufacturers has done. When labor troubles occur,

the members of the Association may assist one another financially and otherwise.

Employers have weapons too. Occasionally, an employer will use the *lockout*. Then he will close his shop and not let his men work rather than grant demands which he declares to be unreasonable. Some employers keep a *black list*, on which they put the names of men who for some reason have

Wide World Photos

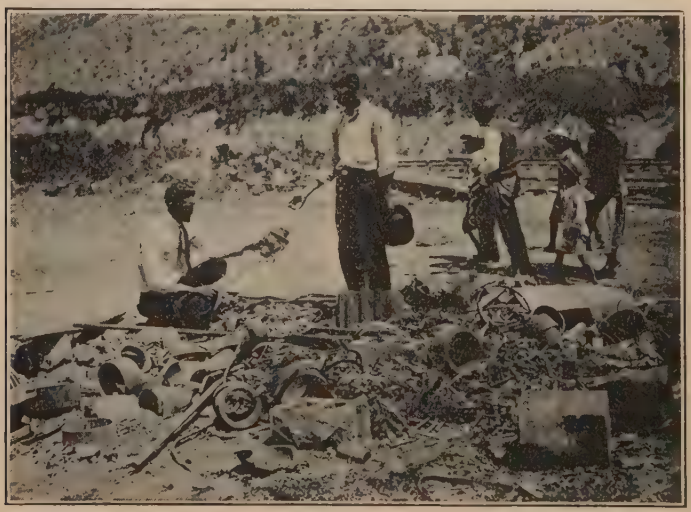
ACCOMMODATIONS FOR STRIKE BREAKERS

The Rapid Transit Company had to make special preparations to accommodate the men who would try to operate its trains if a threatened strike actually took place.

got themselves seriously "in wrong" with their superiors. A man whose name is on such a list will find it very hard to get another job if he is discharged from the one he holds.

The use of the injunction in labor disputes has been strongly condemned by labor. An *injunction* is an order issued by a judge, commanding a person to refrain from doing something which is likely to harm another or to endanger public peace and safety. When labor disputes were on, employers have sometimes secured injunctions from

courts, ordering labor leaders not to interfere with the operation of a factory or shop. When an injunction is violated, the judge who issued it may impose a penalty. Labor leaders who declared they were doing nothing except what their rights as citizens permitted them to do, have been fined or sent to jail on the ground that they violated an injunction. Labor leaders insist that in any such case the accused should be



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WHAT WAS LEFT AFTER A STRIKE

This damage was part of the result of a labor disturbance at Herrin, Illinois.

entitled to a trial by jury, and that injunctions should not be used in labor disputes except when actual harm is threatened to life or property.

129. Labor Wars. — Sometimes labor troubles develop from mere disagreements about what is right into fights to settle who is the stronger. "Wars" is sometimes the right word. Pictures of scenes where riots have occurred look very distressing. When things like this occur, production stops, the workmen lose their wages, the employer's profits come to

an end. Perhaps somebody's property is destroyed. In the end, quite likely, neither side gets all it wants, although occasionally one side loses completely.

Within the period from 1881 to 1905 there were, according to the Bureau of Labor Statistics, 38,303 strikes in the United States. Of these, 48 per cent were on the whole victories for the strikers, 37 per cent were complete failures, and the rest were compromises. It is a bad record that our country has had during the last thirty or forty years. The railroad strike of 1877, centering in Pittsburgh, the Homestead Steel Strike of 1892, the strike of the American Railway Union in 1894, and the epidemic of strikes which seemed to break out from 1916 onward, especially in the coal industry, are evidences that something is seriously wrong.

Strikes occur most often when prices are going up. Wages, as we have noticed, seldom rise as fast as prices. If business conditions in general are good, the employer is more likely to grant wage increases rather than have his business interrupted. On the other hand if business conditions are poor, the employer will close up rather than pay higher wages, and the employee will hold on to the job that he has, rather than risk losing everything by a strike.

When these strikes occur, the employers have only a few definite courses to follow. They may yield, but of course they dislike to do this for fear that their workers may feel that the control of industry is to be in their hands henceforth. They may close their works completely, cut off their profits, and deprive the public of the things which they were producing. They may hire strike breakers to keep the business going. Yet this course almost invariably provokes trouble. Finally they may compromise.

Is a man out of work doing wrong if he rejects a job while a strike is going on?

Who rides on the railroads? Who pays the freight? Who depends upon the iron, the steel, the cotton, the salt, and

pays its good money for these things and the products made out of them? The public — the 90 per cent or more of the people who have no direct connection with any particular industrial dispute, and whose chief interest in it is simply a desire that justice be done.

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SUFFERERS FROM A COAL STRIKE

This miner is out of work for how long no one can tell. How are these children to be properly cared for while their father is earning nothing?

The seriousness of the situation was never more clearly brought to light than in 1916, when the railroad brotherhoods demanded a change in their hours of work and declared that they would not submit their claims to arbitration. President Wilson was so impressed with the danger that he went before Congress and asked for a special law which granted most of the things for which the brotherhoods were asking. Along with these changes, however, Congress gave the President the power in any emergency to take over the rail-

roads and operate them himself, in order to keep open these arteries of commerce.

When the rural milk producers declare that they will not sell their milk except at a certain price, the sufferers are not the city milk dealers so much as the men, women, and children to whom milk is a necessity of life. When coal miners go on a strike the worst sufferers are not the owners and operators of the mines. They have enough wealth saved up, in most cases, so that they do not need to keep the mines going. It is the people who need the coal to keep them warm, to keep their industries in operation, to keep even their railroads running. And it is the striking miners who have little or nothing saved up and who can get only limited help from their union. If they live in "company houses," the coal company is likely to put them out if they refuse to work and cannot pay rent. And then what suffering and bitterness results!

The state has the right to say that you shall go to school whether you like it or not. Why? Should it have the same right to say that certain industries must be carried on whether everybody connected with them is satisfied or not? Is there any difference between public employees and employees of private organizations in regard to the right to go on a strike?

In the city of Smithville the street railway company has decided to use one-man cars exclusively and to adopt a new time schedule which will require ten hours' work in a day from each car-man instead of nine, which has been the previous program. The Car-men's Union refuses to accept the new arrangement and orders a strike to take effect on May 1, when the new time schedule begins to operate. How would you feel and what would you do about the situation on April 25 if you were: (1) an old employee likely to be retired soon from the regular working list? (2) an employee likely to be continued in regular service? (3) the president of the Car-men's Union? (4) the president of the street car company? (5) a person depending on the street cars to get to your place of employment? (6) an employer most of whose employees have to come on the street cars? (7) the mayor of Smithville? (8) the editor of the leading local newspaper?

On May 3 the street car company undertakes to operate a few

cars, using imported strike-breakers. Several small riots occur and some of the cars are damaged by rioters. What then do you think would be the attitude of each of the persons previously mentioned and what, if anything, would be done by each? What suggestion would you make either as an outsider or as a disinterested local citizen for bringing about a peaceful settlement? On what basis do you think the settlement should be made? What facts should one know in order to give an intelligent answer to that question?

130. Conciliation and Arbitration. — The outsider is likely to ask, "Why can't these fools get together?" But perhaps each party to the quarrel honestly and obstinately thinks that the other is absolutely wrong. Perhaps one side is actually trying to see how much it can get for itself and keep the other from getting. As long as such a state of mind prevails, conditions are likely to remain at a deadlock. Surely, however, if the disagreement is honest, we can reasonably ask the parties involved to present their case to some impartial persons and ask them to determine what is the right thing to do.

Many of our state legislatures as well as Congress have recognized the interest of the public in matters of this character. They have provided state and national boards to undertake the work of peaceful settlement. Sometimes they do this by *conciliation*, when they try to bring the two parties into a friendly discussion. Sometimes they offer their own services in helping arrange a settlement without accepting any responsibility for decisions that may be reached; this is *mediation*. Sometimes they may accept the duty of arranging the settlement themselves, with the consent of the parties to the dispute. A settlement whose terms are decided by the conclusions of one or more supposedly disinterested persons is *arbitration*.

Mayors, governors, presidents, and influential private citizens have frequently assisted in bringing about settlements, though the strict interpretation of their duties would give them no power to act in this manner. Boards of mediation and arbitration usually have no power to compel people

to accept their services or to force the acceptance of their decisions. But when a possibility for a peaceful settlement looms up, public feeling is likely to be expressed pretty strongly in its favor. Even when one side thoroughly believed that it was right, it would be hard for it to hold out against a compromise backed by public opinion.

Canada has a law requiring that a government board shall *investigate* any labor disputes and publish its conclusions, though the board has no authority to compel their acceptance. New Zealand and Australia go still further, and employ *compulsory arbitration*. The difference between these two methods is that the first relies upon public sentiment to bring the parties to terms, while in the second case there is the force of law to back up the decisions of the board of investigation. Much good has been done by both these methods, though in neither case have strikes been entirely prevented.

Labor organizations do not favor compulsory arbitration. They declare that it practically puts an end to the right to strike and they maintain that to deny a man the right to quit work, either alone or in company with others, is the same as "involuntary servitude." They also assert that arbitration always results in a compromise and that the arbitrators, instead of trying to decide what is right, try to have concessions made by each side and therefore may not satisfy either.

To hear disputes involving railroad workers which could not be voluntarily settled, the Railroad Labor Board was established in 1920. Its usefulness was limited because the Board was not given power to enforce its decisions. However, it did prevent one menacing strike in 1922. In 1926 the Watson-Parker Act was passed which returned the settlement of labor questions in the railroad industry to the employers and the employees. The Railroad Labor Board then passed out of existence.

Now if disagreements occur in the railroad business, one of the following means of settlement must be employed.

(1) If possible, a dispute should be settled by means of a *conference* between the parties directly concerned. (2) *Adjustment* boards, agreed upon by both sides, may interpret agreements over which there is dispute. (3) The President may appoint five members to a *Board of Mediation* which has the power to intervene in any unsettled dispute. (4) This Board may propose *arbitrators* whose decisions, if accepted by both sides, shall be enforceable by law. (5) The Board may, if necessary, recommend that the President appoint a *Board of Investigation* who will submit information and evidence on the dispute.

Not a single feature of this law gives anybody the power to compel anybody to do anything. It reads like a confession of helplessness on the part of the government. But until a better method of settling disputes can be found, this somewhat complicated set of machinery will constitute the only means of handling disputes affecting railroad workers.

The only effort in the direction of government restraint that has been tried in this country was undertaken by the state of Kansas. It established a Court of Industrial Relations (1921) and provided that any labor disputes in the so-called essential industries must be submitted to it for settlement and that the industry must continue to be operated without interruption. There was much opposition to it from some sources, and the United States Supreme Court declared that some of the powers vested in the Kansas Court by the legislature were unconstitutional. So compulsory arbitration has not made much headway in this country.

Summarize the agreements that might be offered for and against compulsory investigation of labor disputes; compulsory arbitration. If you think the American people do not favor compulsory arbitration, what is the best substitute you can offer as a means of handling labor disputes?

131. Efforts to Bring Contentment to Workers. — We have noted how the world's labor element has gained advantages by uniting in labor unions, and occasionally by

other means. Now let us see what employers have done, sometimes under compulsion, it is true, but more often in recent times voluntarily, to better the life of the workers — especially those employed in the large factories where thousands of men and women spend most of their time. Employers did not always realize the difficulties of their

Wide World Photos

JOHN D. ROCKEFELLER, JR.

Mr. Rockefeller is the gentleman in the center. With his secretary and his attorney he is on his way to attend a hearing held by a Senate committee in Washington.

employees. John D. Rockefeller, Jr., found himself in this position when serious disorders occurred in the Colorado coal and iron fields in which some of his wealth was invested. He proceeded to inform himself, however. He went to Colorado, and spent several weeks among his miners, working with them, living as they lived. No doubt he made quite a few discoveries, and his workers learned that he did not have

hoofs and horns as they previously may have thought. When he returned, he saw to it that conditions were greatly improved.

One of the earliest efforts to bring contentment into industry took the form of *welfare work* — that is, comforts given to workers outside of their regular wages. Clinics, rest rooms, gymnasiums, libraries, lunch rooms, and recreation

Courtesy of Hershey Chocolate Company

ONE FORM OF WELFARE WORK

This athletic field is one part of the facilities afforded by Mr. Hershey for the recreation and enjoyment of his employees.

rooms are offered to the worker in most of our big concerns. Plays are given and athletic teams organized. Cleaner, more comfortable working conditions are really appreciated and they of course are more conducive to harmonious relations between all concerned than the unsanitary, dirty workshops of a few years ago. Good will is promoted between the "boss" or the "company" and the worker, and among the employees themselves.

It pays in a business sense, too, to treat employees in a square, humane way. The loyalty and interest in their work shown by men who found their employers were really interested in their welfare and trying to make life more pleasant for them was the great indirect reward received by many a firm. At first there was some uncertainty as to how the worker would take to such improvements, and whether he would reject them as " paternal," but the American laborer has usually shown his sense in this way and has received them in the friendly, man-to-man way they were offered.

There has been opposition from the professional labor agitator who saw little place for his own activities in a factory where the workers thought well of their employers. It is sometimes urged that employers should express any brotherly love they might have for their workers by raising their wages with the money they intended to spend on a restaurant, a gymnasium, or a recreation hall. Some try to make the workers think that such devices are merely a way of fooling the employees into contentment.

Another kind of welfare work, excellent in principle but often abused in practice by the greed of men in charge, is the *company store.* This is a store conducted by the company where necessities are sold to employees at a little above cost. One trouble with this method is that business is not done on a cash basis, but charge accounts are encouraged. This means extravagance, and extravagance will not fit into a $25 pay envelope. But since no wages are paid until charge accounts are settled, sometimes no wages are collected at all. Little loop-holes like this in a good system sometimes become enlarged by use until at last they overshadow all the good points.

The field of welfare work gradually widened until some companies went so far as to build homes for their employees, which they sold to them at a considerable saving from the usual market price. True, this was not always done from pure generosity, for the capitalist whose factory

was in an out-of-the-way place, realizing that married men were necessarily more steady workers, saw the wisdom of building homes for their families that would be handy to the factories. Sometimes these houses are all built exactly alike and are uniform in ugliness as well as in size; but in other cases neat little houses with their own distinctive touches encourage the dwellers to keep the surroundings beautiful with gardens and flowers.

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A Company Store

This store evidently carries a considerable variety of goods.

Even when welfare work was extensive and successful, factories clean and comfortably equipped, some employers saw that their intelligent employees were not altogether satisfied. Workers began to complain that they had nothing to say about the industry as a whole, after their own special little piece of work had been finished. In an attempt to remedy the situation, men who understood human nature devised a system known as profit sharing.

Profit sharing is a plan whereby employees receive, besides their regular salaries, a certain portion of the net profits of

the concern. It is usually distributed in one of three ways: a cash bonus, a deferred payment, or shares in the company's stock. Profit sharing undoubtedly is an incentive to a man to do the best work he is able, for the greater are the company's profits, the larger is his own return. It makes men ambitious and keeps the average worker alert and more likely to feel a personal interest in the business.

Profit sharing has not always been successful. It has failed sometimes under nearly the same conditions in which it was successful. It is necessary that the products of the company have a stable market, where the demand does not vary much, if there are to be any profits to divide. Then, too, it is not just to adopt this system unless labor plays a large part in production. And sometimes in order to get the benefit of profit sharing, an employee must stick to one firm when he is not benefiting in other ways by working for that concern.

Sometimes employers have not gone so far as to share their profits, but have adopted other systems with the same idea. Many companies give bonuses to their employees. These are money gifts, separate from the wages, and are usually given unexpectedly at vacation time or before a holiday, but sometimes regularly every six months or every year. When a good worker leaves his job, his employer may remember him with a bonus. Among some workers the bonus is more popular than profit sharing, for it seems like a present — something for nothing.

Another way to reward faithful service is by the pension system. A pension is a fixed sum given every week or month to employees, or their dependents, who because of age, sickness, or accident, are no longer able to work. The money that provides this pension fund is collected in various ways and the conditions under which pensions are given vary in different companies. Sometimes a small percentage is taken out of the employee's pay and put into such a fund.

Yet another system for coöperating with employees is

that of selling them shares in the business. The United States Steel Company has done this, until a considerable amount of the stock is owned by the workers themselves. The success of this system also depends on the intelligence of the employees, but where it is used the workers turn out a better quality of goods because they understand that the value of their stock depends upon the sale of the product.

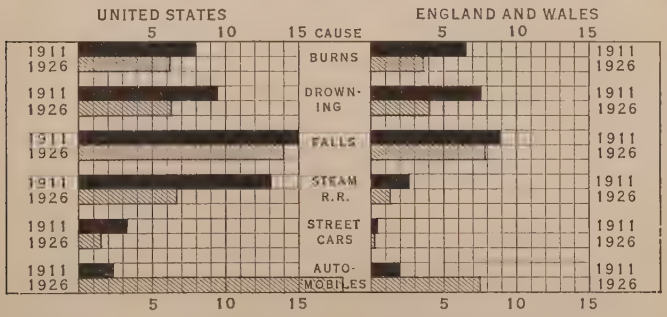
To go perhaps the whole way toward removing suspicion and misunderstanding, a considerable number of firms permit employees to be represented in the management of the business. The Filene Department Store in Boston, for example, is organized on that basis. In the Riverside and Dan River cotton mills of Danville, Virginia, a House and a Senate consisting partly of employees have been formed to consider matters affecting the plants. Usually along with these systems, some phases of profit sharing are introduced; and the usual report is that the business is carried on better, relations are pleasanter, and most of the former disagreements, if there have been any, disappear. This kind of program is often referred to as *industrial democracy*.

When conditions like this exist, the employees realize much more clearly the responsibility connected with the management of the business. They know whether the business can permit the payment of higher wages. A sense of individual responsibility comes to the workers which they seldom feel when they are simply "hired help."

In some places, where a formal organization is thought unnecessary, shop committees, elected by the workers, confer with the management about matters of common interest. Sometimes union leaders consider this plan a mere device to ward off suspicion. They look with contempt on the so-called company union. On the other hand, the American Federation of Labor has given its approval to the idea of industrial democracy, but it naturally assumes that the representatives of the workers shall be chosen through the regular union channels.

Andrew Carnegie was asked once, "Which is the most important — labor, capital, or brains?" This was his answer, "Which is the most important leg of a three-legged stool?"

132. Protecting the Workers. — It is true that employers and laborers have themselves done much to improve working conditions. But it is hard to say how far they would have gone without the help of that friend of both sides, the public. Certainly much less would have been done without the laws



THE COST OF CARELESSNESS

This diagram shows the fatal accidents in the United States and in England and Wales from certain causes for the two years indicated. The length of bars indicates the number of such accidents for each 100,000 of the people. The United States is distinctly first in this respect as in some matters more to its credit. Safety campaigns appear to have produced good results except in the case of automobiles.

demanded by an aroused public sentiment. Even though there were conscientious employers who realized that their employees were human beings, there were some who were always selfish and short-sighted, who never considered anything but the fatness of their own pocketbooks and who never could see farther than the little circle of their own temporary interest.

Because of the callousness or neglect of such men, laws have been passed to insure protection for the workers. Improved conditions in industry were decreed, and no longer were machines that could snap off a man's arm or leg left

uncovered and free to do so. The rate at which human life was held was made much higher and " safety first " has become the watchword and the test of every industry. Many different laws have been passed with the purpose of preventing accidents.

But some will happen, either because of the employer's failure to obey the safety laws or the workmen's own carelessness. Thousands of people are still made helpless every year, sometimes from unavoidable accidents, and public sentiment has demanded that some compensation be given to these people. As a result we have our workmen's compensation or employer's liability laws, which require employers to insure workers against injury or illness incurred by reason of conditions existing in their employment. Perhaps the public has not stopped to realize that the people generally pay in the end, by higher prices, for any compensation the employers give their workers. But even if it has, it will undoubtedly go on with the good work ; for the cost distributed so widely is not a hardship to anyone, while the good done benefits the whole country by making life a little more bearable for many of its people.

There are various forms of social insurance, that is, protection of those who because of accident, old age, or other cause, are unable to earn their own living. Some of these are insurance against sickness and unemployment, government insurance of soldiers, mothers' pensions, and the like. Bismarck caused a number of these to be adopted in Germany many years ago, to help in checking what he feared would be a dangerous growth of socialism (§ 177). England has some of these, including an extensive system of old-age pensions for her poorest people, and a form of insurance against unemployment. The public has come to realize that proper protection and care of the workers, even though it costs something, is one case where the good of one is the good of all, for a restless and discontented labor class can upset the balance of the whole nation. The " dole," as the English call it,

is not very popular with some Englishmen. They believe it encourages idleness and thriftlessness among the poor. But it is doubtful whether any English government would dare face the outcry that would follow the abolishment of it.

Why have some European countries gone so much further with these changes than the United States? Would it make any difference in your attitude toward work and earning if you knew that the government would not let you starve in your old age? Does such responsibility always belong to the government?

A politician used this argument when it was proposed to reduce the cost of government in his community by more efficient organization of public offices and the elimination of unnecessary employees: "If we do this, it will throw a lot of fellows out of work and jobs are none too easy to get these days." Do you consider his argument sound, assuming that it was sincere?

It has been proposed that a reserve fund of $3,000,000,000 should be set aside by the various governments, local, state, and national, and used to employ workers on public improvement jobs at times when business conditions in general are not good. What do you think of the proposition? Do any difficulties in the administration of the plan occur to you? Might a condition arise in which it would be desirable to have a reserve supply of laborers to meet periods of exceptional activity in industry? Would that be feasible?

The eight-hour day, the requirement of one day's rest in seven, and the custom of an additional half-holiday each week, are important items from the standpoint of health, recreation, and social welfare. The general tendency to charge more for night work and to prohibit it for women and children is not a scheme to get more out of the employer, but an effort to limit such work in the interest of the workers' health. It used to be urged that that industry could not run on an eight-hour basis; but in practice we find that men can work harder and faster and actually get just as much done day after day by working eight hours regularly instead of ten. The steel industry and the railroads have been adjusted to that basis, and if they can, so can almost any other industry.

The next question is, will the worker use his spare time in

helpful, healthful ways? On the whole it seems clear that he does. Some employers — can you believe it? — have intimated that a five-day working week is coming. That might mean that we should try to do in five days the same work that we now take five and one-half or six to do. There must be a limit somewhere, however, to the speeding-up of human energy. If all of us are to work only five days a week, we shall have to content ourselves with waiting longer for the things we want than we do now. If the wait involves nothing more serious than automobiles, perhaps it will do no harm.

Do men and women need recreation the same as boys and girls? as much? of the same kind? Make a list of the ways in which ten people whom you know spend their leisure time. If they had more leisure, how would they be likely to spend it? Is there any difference between types of workers — manual workers and brain workers, for instance, — as to their use of leisure? Why has the eight-hour working day seemed particularly suitable? What kinds of recreation are beneficial and what kinds are harmful?

Are there any industries in which an eight-hour day is impossible? Should we deny a privilege to workers in general on the supposition that some workers will abuse it? Are there any industries which must be carried on seven days in the week? How will you arrange for rest periods for workers in such industries? What is implied in the Russian statement: "The right to work shall be held inviolate, but it is suspended at night for women, and for all under eighteen years of age"? What do you think of the new Russian calendar?

What is the result of labor's struggle for a position where it can look out for its own interests? Of what avail have been the unions, the collective bargaining, the strikes, the former hostility of most employers and the later friendliness of many? The laborers indeed have benefited. They are much better off now than ever before. They have much more money, and thanks partly to them, there are many more ways to spend it. Sweatshops are getting to be a thing of the past, and workers are treated as men. Labor is no longer helpless, but is often just as powerful as capital. Systems of conciliation, arbitration, and mediation have been set up to deal with troublesome disputes between them. But class spirit and antagonism are still strong.

Employers, as a whole, are willing to treat their employees better, especially if they can get credit for their work from the public while it

unwittingly pays the cost in higher prices. But it is true that employers have been reformed to a considerable degree, through their own consciences or by outside influences. Present-day employers, however, sometimes have to pay for the sins of their fathers. The public is in a rather embarrassing position, right between the two fighting classes, where it gets most of the blows aimed at one or the other. In most of the controversies, it has been sympathetic with long-oppressed labor, generally not stopping to realize that when labor won with its help, capital would of course take the increased demands out of the public by raising prices.

The results of changes are not always clear. There are "downs" as well as "ups." But surely, though slowly indeed, we have been climbing upward toward the goal of industrial and social justice.

Special Studies

My Experiences in an English Factory in 1816 (Imaginary)
Labor Problems of my State
Labor Problems of my Country
The American Federation of Labor
The United Mine Workers of America
Famous Strikes in our History
Safety-first Campaigns
Social Insurance Laws in our State
Resolved, That Our State Should Establish a System of Old Age Pensions
Resolved, That a Trade Union is Justified in Desiring a Closed Shop
The Attitude of Labor Unions toward Apprenticeship and Vocational Training
Laws of our State with Reference to the Settlement of Labor Disputes
A History of Federal Laws in Regard to Railroad Employees
The Housing Problem of Workers in Great Factories
The Welfare Work of a Large Corporation
Industrial Democracy
The Organization and Activities of a Local Trade Union
The Extent to which the Government Should Deal with Labor Disputes
Resolved, That the Australian System of Compulsory Arbitration of Labor Disputes Should Be Adopted in the United States
Resolved, That a Five-Day Week Should Become the Standard in American Industry

The Operation of the "Dole" in England
Resolved, That the States of the Union Should Establish Pension Systems Which Would Enable All Workers to Retire at the Age of 65

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Commons, *Industrial Government*
Crowther, *Why Men Strike*
Eldredge and Clark, *Major Problems of Democracy*, pages 201–204, 212–222
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Tarbell, *New Ideals in Business*
Tufts, *The Real Business of Living*, Chapter 28
Watkins, *Introduction to the Study of Labor Problems*, Chapters 7, 14–19, 25, 26
Weld and Tostlebe, *A Case Book for Economics*, pages 404–459
Wells, *Industrial History of the United States*, Chapters 14, 29, 30
Williams, *What's On the Worker's Mind*
Williamson, *Readings in Economics*, Chapters 20, 33, 34

CHAPTER XIV

MAKING BOTH ENDS MEET

To make a few men rich and many poor is not fit for a commonwealth. — CROMWELL

Now that we have learned something about the problems of distribution, it will be worth while to consider practically some of the reasons why distribution is so uneven. What is the condition of the people of the United States with reference to wealth? What standard of living is desirable now or possible in the future? How can we best make use of whatever wealth we may possess? How can economy be encouraged? Is great wealth harmful or beneficial?

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133. Riches and Poverty. — In discussing human wants and their satisfaction, perhaps we seemed to imagine that any one who wishes may easily have variety and harmony in the satisfaction of his wants. The fact really is that economic choice for some people is not very broad — they must choose between a very few things and none at all. In 1920 only 5,518,310 persons paid federal income tax — incomes for single men exempt up to $1000, for head of family up to $2000; in 1927 only 2,501,166 paid such a tax — exemption for single men $1500, for married men $3500. Granting that some people who should have made returns did not do so, it is still true that only a small fraction of the people enjoy even these moderate incomes, for there were 42,000,000 persons in the United States " gainfully employed " in 1920.

It may be truthfully urged in reply that never in the history of the world was the average man as " well fixed " as he is to-day in the United States. In 1850, if the wealth of the country had been evenly distributed, every man, woman, and child would have had about $300. To-day every person would have nearly $3000. But the income tax figures show

that the nation's wealth is by no means thus evenly distributed. The following table shows the number of persons who paid income taxes in 1927 on a *net income* of $1,000,000 or more:

$1,000,000 to $1,500,000	134
1,500,000 to 2,000,000	54
2,000,000 to 3,000,000	55
3,000,000 to 4,000,000	22
4,000,000 to 5,000,000	8
5,000,000 and over	10
	283

New York had more than three times as many individuals as any other state. Pennsylvania was next and Illinois and Massachusetts followed.

Probably most of these millionaires obtained their wealth by means that were legal and, in their minds at least, morally

Wide World Photos

THE ESTATE OF A WEALTHY MAN

This is the home of John J. Raskob, formerly of the General Motors Corporation. Money can make things beautiful. It is fine when others than the owners have the privilege of enjoying the beautiful grounds of any such estate as this.

proper as well. We need not blame them for taking advantage of their opportunities — we would probably have done the same as they did if we had their brains and their chances. But when we look at the other end of the financial procession, we shall see a woeful contrast and be convinced that the problems of consumption are far different for some people than for others.

134. Why Some People Are Poor. — Probably the simplest explanation of the situation is that the poor get low wages, or are out of work a good deal of the time. But at once the inquiry comes, why is their income small? It may be because the service they render is comparatively unimportant. Possibly it is because they are not in a position to demand any more than they are receiving. Perhaps they have neither the training nor the ability to earn more than their pay envelope contains. Perhaps they are lazy. Maybe they are physically weak or crippled. There are countless reasons for low wages.

Some, who earn enough to live comfortably when things are going well, meet with misfortune, accident, sickness, or the unexpected burden of caring for others. Sometimes there is a slack period in business. Occasionally a worker is kept down by the greed or unfairness of an employer. All such conditions make it difficult for an income to cover the expenses of a family of ordinary size.

But neither low wages nor misfortune tells the whole story. Many who earn enough to keep themselves and those dependent upon them in reasonable comfort are not satisfied to live within the range of their pocketbook. They must pay the high rent necessary to live in a " high-class " neighborhood. They must wear expensive-looking clothes like those that the rich can afford. They maintain charge accounts at stores, and thereby fall into the temptation of getting things which they do not need. The children are in the habit of going to the movies not less than twice a week.

All these outlays, summed up in the one word "extravagance," explain the poverty of many a family. Personal habits, such as indulgence in gambling or liquor, use up the wages of thousands of others who might keep themselves and their families in decent circumstances.

A still further reason for the distress of some families, who once were earning good wages and had saved something from

Was Home Ever Like This?

Contrast this view with that on page 320. It is hard to imagine that such a difference might exist in the same city.

these earnings, is that they put their money into some investment which turned out badly. Perhaps they were tempted to play the market and met the fate of many who fall into such temptation. Perhaps they were too anxious to have their money bring in good returns and put it where instead of bringing big returns it brought none.

Is the same expense an extravagance for every one? What have you spent in the last thirty days that you did not positively need to spend? How many of such expenses do you think were justified?

135. The Cost of Living. — Now how do these vividly contrasting conditions of rich and poor affect the way they live? The term "cost of living" defines itself — it is what it costs a person or family to keep alive and to enjoy life. The cost of living is the price of the economic goods consumed. In the life of almost every family there are certain items which enter into their daily routine. There are food, clothing, rent or taxes, light and heat, savings, entertainment and recreation, charity and church, and self-improvement. All of these, of course, are included in the cost of living.

Among the many studies and investigations that have been made in regard to the cost of living, one of the most widely known is that made by a German named Engel in the 1850's. Some of his conclusions are referred to as Engel's Law. "As the income of a family increases, the proportionate expenditure for food decreases; that for clothing, rent, fuel, and light remains approximately the same; and that for cultural wants increases." Exact statistics are as follows:

ENGEL'S LAW

		Laborer's Family		Middle-class Family		Well-to-do Family	
Absolute Necessities	Food	62	95%	55	90%	50	85%
	Clothing	16		18		18	
	Rent	12		12		12	
	Fuel and light	5		5		5	
Other Expenditures	Education, public worship	2	5%	3.5	10%	5.5	15%
	Legal protection	1		2		3	
	Care of health	1		2		3	
	Comfort, mental and bodily recreation	1		2.5		3.5	

Does this distribution seem sensible — 96%, 92%, or 88% for material needs or comforts, and only 4%, 8%, or 12% for the care of the mind and soul and everything else?

As we should expect, any such statistics are open to qualification and explanation. 50% of a well-to-do family's outlay means many more dollars than 62% of that of a

laborer's family. It is very doubtful whether half the expense bill of the really rich family to-day is for food. Much variation exists, too, between city and country families. Some articles of food cost about the same in both places, but the country family raises many of the items on its own bill of fare, at a very considerable saving. The cost of houses or of house rent is usually less in the country or the small town. The city family, on the other hand, often has to pay 25% or more of its income for house rent; Engel's percentages for rent would be too low for the majority of families in any group to-day.

Make a graph showing the percentage of income used in your family for food, rent, clothing, house maintenance, savings, entertainment, church and charity, and self-improvement. Make a similar graph based on Engel's table, but modifying it to agree with your opinion of the cost of living of the corresponding types of families in the United States to-day. Be able to explain why you differ from Engel when you do.

136. Standards of Living. — You already have learned that the cost of living is the price one pays to live. By standard of living we mean the style in which one lives — whether he spends freely for his welfare and comfort, or moderately, or whether he neglects himself. One's standard of living is measured by the amount and kind of economic goods he consumes.

Sometimes the low standard is due to the fact that the persons involved simply do not want to better their conditions. If a person has only the bare necessities of life — food, clothing, and shelter — and neglects the moral, mental, and spiritual parts of his make-up, he is said to have a low standard of living. Such a person is not making himself as valuable to himself or his community as he might be.

Sometimes the lack of money makes it impossible for a person to have other than a low standard of living. A family's standard of living is influenced not only by its total income but by the number of workers and dependent persons

included in its membership. A man and his wife might live very comfortably on $2500 a year. But if they have to support aged parents and care for four or five children, it would be difficult to do much more than make ends meet.

At the other end of the scale, we see the high standard of living, where we find people who live comfortably and happily and avail themselves of all the opportunities they

Pleasant Homes for People of Moderate Means

This is a group of cottages in Pasadena. One may find similar pleasant places in other cities for those who are willing to live without extravagance.

can of bettering themselves. Perhaps they were born into families that have always tried to make the most of themselves, and good living is a family inheritance. Perhaps they have deliberately sought after the finer and higher things of life.

Naturally, the term is a relative one. Mere display of wealth means only a superficially high standard of living. "Plain living and high thinking" much more nearly represents the ideal standard of living than the newly-rich man's vulgar show. Built-in bath tubs and telephones were not

dreamed of in George Washington's day, yet few had as high a standard of living in his day as he did. A family to-day that economizes on movies and extra clothes in order to keep up with good literature and current progress and contribute to deserving causes, is setting a much more praiseworthy standard of living than one that may have all the newest fashions in clothing, but never sees the inside of a church, a library, or a lecture hall.

Is this good advice: "Live in comfort but not in luxury; seek to become more satisfied with less; and never let yourself grow envious of those who have more than you"?

Tabulate the occupations represented on a page or two of your city or town directory. Estimate the average wage of each of these occupations in your community, and see whether you can draw any conclusion in regard to the standard of living in your town.

Make a list of ten things that you do not find in every home but that you would expect in the home of a family maintaining a desirable standard of living. If your family's income were suddenly reduced 25%, what would you expect to give up?

137. Harmful and Foolish Spending. — Spending may be of three kinds — harmful, foolish, or wise. Although you may say that if it is harmful, it is foolish, there is a distinction. Harmful spending means consuming goods or indulging in practices that are injurious to the physical or moral well-being of ourselves or the community. Any number of examples could be named, for instance, cigars, pipes, cigarettes (for young people at least), intoxicating liquors, drugs, gambling, or vulgar magazines or shows. When we spend money for such things, we are indulging in harmful consumption. Perhaps we cannot measure exactly their detrimental effect on us personally, but the example we set and the encouragement we give to such production promotes activities that have harmful results in the community. There is no justification, morally at least, for such spending.

To speak of any sort of consumption as a cause of production takes us back almost to the point where we started, for

one of our earliest principles was that the desire for consumption precedes production and gives rise to it. Here we see clearly how economic activities move in a circle and that we cannot draw any sharp line between them. But just now we are thinking mainly of the relation of our expenditures to distribution rather than their relation to production.

Foolish spending is still more common than harmful spending. Americans have a very bad reputation for getting rid of their money in wasteful, unnecessary, and frivolous ways. John D. Rockefeller is noted as saying, "The American people are prodigal, and our extravagance will have to be paid by some one." Our spending may not do actual physical or moral harm, but it creates an inexcusable vacuum in the pocketbook. For instance, a girl has planned to pay about $40 for a fall coat. She goes into a store and sees the different styles and grades of coats. There is one which is rather becoming for $39, and another which is equally attractive for $100. She may be tempted to buy the latter, but for her would it be other than a foolish thing to buy? Even if she could afford the $100 coat, would it not be a foolish purchase if the $39 article looked just as well on her?

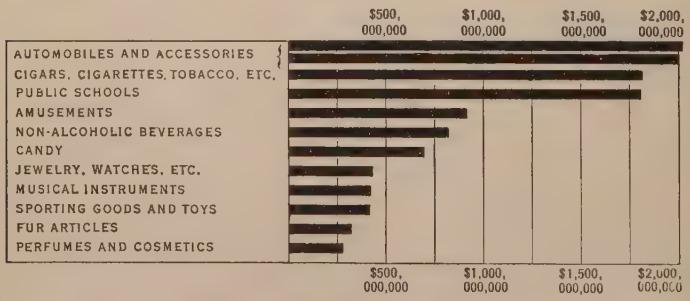
"Keeping up with the Joneses," getting certain things because others have them regardless of whether or not we can afford them, is all too common. Because your friend bought a new hat and paid $6 for it, you must buy a new one for $6.50 or $7. Or if you hate Kitty and see her wearing a hat like yours, you throw away yours and get another. A silly performance, whether it damages your bank account seriously or not!

We go to a show. After it is over we proceed to a soda fountain and order a nut sundae or a hot chocolate, depending on the weather, or on who is with us. We don't need it any more than we need a keg of nails, but we get it. Foolish consumption! We go to a dance, but instead of paying not more than ten cents apiece on the street car, we hire a taxi. It may be perfectly true that the other fellows are doing it

too, and perhaps the girl is to blame for expecting it, but for many a boy it is foolish consumption, nevertheless. And we haven't said a word as to whether the show and the dance were themselves examples of foolish consumption. Several elements might enter into our decision on that point.

Both harmful and foolish consumption may be classified as unproductive consumption. They do not give the consumer greater productive ability. He has not gained in any lasting way, and may have lowered the social standards of his community by his extravagant or injurious habits.

We spend over $10,000,000,000 each year for luxuries. It is hard to believe that more money goes for cigarettes and tobacco than for public education. Yet here is an interesting diagram:



NOTABLE OBJECTS OF EXPENSE FOR THE PEOPLE OF THE UNITED STATES

These statistics were prepared by the National Education Association and were used to show that the people were not paying too much for public schools. They are of the year 1924. How many of these items could the people readily get along without?

Is intemperance limited to the use of intoxicating liquor? Why are pay-days often set for Saturday rather than some other day of the week? Is it anybody else's business if we choose to indulge in a habit that harms us? If nobody spent money foolishly, what would become of the moving-picture houses, hot-dog stands, amusement "parks," and drug stores? What would be the resulting effect on the community? May the use of certain commodities be harmful at some times and not at others?

138. The Cost of High Living. — We must spend for the necessities which keep us alive and able to work. We are also justified in spending for comforts which add to our reasonable convenience and happiness. But when it comes to luxuries which add only to display or useless idleness or mere transient, unrecreating amusement, what shall we say? People who buy beyond their means are committing a wrong

A New Type of Apartment House

How would you suppose the cost of living in a place like this would compare with that in the houses shown on pages 366 and 368?

to society as well as to themselves. In one sense this matter is a question of ethics rather than of economics, but we are not separating ethics from business so completely as we were in the habit of doing at one time. There is a right and a wrong way of meeting almost any situation.

The principal excuses for spending money for luxuries are two in number. First, the man who has money laid by may say, "This is mine; why may I not do with it as I please?" Besides this purely selfish excuse, people some-

times offer the argument that expenses for luxuries make work for others. The rich man who keeps a chauffeur, a butler, and three or four maids to look after the needs of a family of three or four people may think he is giving these men and women employment, and is doing society a service. He may argue that if he spends a quarter of a million dollars for a house, when a third of that sum would give him every comfort that he could reasonably demand, he is encouraging business to the additional extent of his expenses.

Let us see some of the results that come from this expenditure for luxuries. In the first place, the people who are doing useless work are taken away from occupations which could be of benefit to the whole community. The service which they render benefits only a very few people, whereas they might be engaged in an occupation which would promote the well-being or comfort of thousands. A distinct social loss has resulted.

Again, it is likely to produce among the members of the rich man's family a habit of idleness and a spirit of selfishness which is wholly contrary to good citizenship. It also sets a bad example to the rest of the community and causes those who do not have money to try to imitate those who do. We think we must have things which our fathers would have looked upon as proof of the grossest extravagance. We want expensive forms of pleasure. And if we cannot gratify these wants, we may become sour, jealous, or disgruntled.

There is no question whatever that the cost of high living is one of the most important reasons for the high cost of living. If so much money were not spent for unnecessary things, fewer such things would be produced, more workers would remain in the necessary industries, the price of the products of necessary industries would remain at a lower level, and the people with small incomes could obtain more of the real necessities of life.

Do you see now how the study of economics can help you to decide what the things of real value in life are?

Should the consumption of luxuries be controlled by law? Do gifts to church or charity belong under one of these three heads listed below?

Classification	College Boy	Girl Stenographer	Family Earning $2400 a Year	Family Earning $10,000 a Year	Family with Income of $100,000 a Year
Necessity	Complete this table, entering in the proper place each of the following items: bread, daily paper, a Ford, Packard car, lip-stick, straw hat, vacuum sweeper, ice-cream, radio, sun parlor, flower garden.				
Comfort					
Luxury					

139. Wise Consumption. — After all, the world is so constructed that we cannot live without spending money. Our problem, then, becomes one of wise spending. "Do I need it?" "If it is not strictly necessary, shall I or some one else be benefited by my getting it?" "If I am going to get it, should I do so now?" These three questions might on occasion be very helpful for us to ask ourselves.

Wise consumption is another term for productive consumption. When we utilize something that either increases our own productive power or is a benefit to society, it is called productive consumption. Such articles as proper clothing and food, recreation, and a home are all examples of productive consumption.

We need to spend to take care of ourselves. Some people buy cigarettes but never go near the dentist. We ought to keep ourselves neat in appearance. If we work hard and faithfully at an honorable job, we have a right to some recreation and an occasional vacation that will give us rest and change. It is our duty to help our fellow-men by aiding in the relief of the unfortunate and promoting righteous causes. As good citizens we ought to keep in touch with what is going on in business, politics, literature, art, and the like.

Even a moderate income can be stretched to meet these requirements by careful planning. There lies the secret of much contentment and much distress. Some cannot tell where even half their pay goes. Some " live high " in the first two weeks of a month and are " broke " the rest of the time.

Ewing Galloway

IS THIS WISE CONSUMPTION?

People go to Coney Island for a " good time " and spend a good deal of money. Is it worth while?

140. Planning a Budget. — The sensible way to handle personal or family incomes is usually through some sort of *budget* system. Most of us can tell pretty nearly what we are going to receive in a week, a month, or a year, depending on the way we are paid. Then if we plan at regular intervals to spend certain amounts for particular items, and set apart a definite amount for some form of saving, we can tell, barring unforeseen emergencies, what condition we are going to be in financially, and what becomes of our income. Many banks and insurance companies will furnish helpful budget books or forms. With a little thought, you can make them for yourself.

Main Divisions	Items to Plan for	Amount per Year	Per Cent of Earning	Amount per Month
Accumulation	Insurance	$ 275.00	6⅞	$ 22.92
	Saving	275.00	6⅞	22.92
Living Expenses	Food	850.00	21¼	70.83
	Rent	720.00	18	60.00
	Clothing	600.00	15	50.00
	Light, heat, medical, etc.	650.00	16½	54.16
Welfare	Recreation, Church, Charity	480.00	12⅓	40.00
	Self-improvement	150.00	3¾	12.50
		$4,000.00	100	$333.33

A bank proposes the above budget for a family of four. Does it seem sensible to you? Suppose the income were $2000, $7000, or $10,000. Wherein would you make changes?

Make up a similar plan for your own family — first, showing how the family income actually is spent, and second, indicating desirable changes or justifiable reasons why you differ from the suggested divisions. (A teacher will of course use good judgment about giving publicity to such plans.) Is there any good reason why you or your family should not work on a budget basis?

A young man supporting himself has a position which pays him $1000 a year. Plan a budget for him that will enable him to save at least a little. When he gets to the point where he is earning $2000, how differently will he be likely to arrange his expenses?

If maintaining a family budget system is so helpful, why is it not done more often? Unfortunately many are too lazy. Others have never thought of it. Some have fallen into the habit of spending their income in a certain way and perhaps would not make a change even if they were convinced of its advantages. In many families parents make the mistake of not letting the younger members have any idea what it costs to keep the home in good running order. Many a man with a moderate income would have been saved the embarrassment and the worry resulting from the extravagance of a well-meaning but ignorant son or daughter, if he had only told them how things really stood. If parents themselves are careless and improvident, then perhaps the children can introduce reforms, and at least begin habits of economy

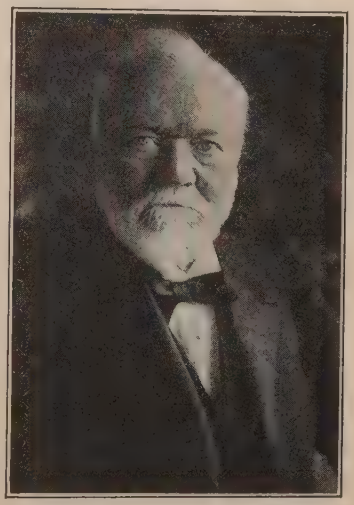
and good management which they can put into full practice when they start out for themselves.

Make out a detailed list showing the amount needed to supply a family of four with reasonable and healthful food for a month. Do the same for clothing, and for the other expenses which an average family tries to provide for. Does your program come within the reach of the ordinary family's income in your neighborhood? If it does not, where will it have to be cut down? Remember that, taking the country as a whole, $2000 is as large an income as the average family can hope for.

141. Social and Economic Effects of Large Fortunes. — Suppose a man, by skillful use of his income, succeeds in becoming rich. What then? True, there never has been a definition of a rich man with which every one would be satisfied. Perhaps we may classify a person as rich when he has laid by enough wealth so that he is not obliged to work for a living. Even this definition would include some people who are willing to live upon a comparatively small income without working. It would also include many people who work hard and regularly, not because they have to, but because they enjoy it or feel it their duty to do so. Sometimes that class of wealth which is so used as to bring returns in the form of rent or interest without much actual labor on the part of the owner is referred to as *vested interests*. For some people the phrase holds a disagreeable meaning.

The very fact that a man is rich stirs some people to wrath. They have never been able to avoid daily struggle and disappointment. Why should others have more of the luxuries of life than they can use? If it is true, as investigations have indicated, that over half of the wealth of the country is in the hands of two per cent of the people, one can hardly wonder that the very unevenness of things provokes the resentment of the numerous class that does not have much of the remaining fraction. Large fortunes intensify and perhaps produce ill-feeling between classes.

The question then arises, "Should great fortunes be inherited undivided?" They who get all the luxuries and ease of life without effort surely cannot appreciate the value of hard-earned money, the toil and strain of accumulating such wealth. To see some rich loafer squandering millions in luxury and unworthy living is enough to make anybody "see red."



ANDREW CARNEGIE

Here is a picture of the man who came here from Scotland when a boy, worked for a time for $2.50 a week, finally became a great steel manufacturer, and then gave away a few hundred millions for libraries and other worthy purposes.

On the other hand, fathers feel it only right that they should leave their money to their children. Although there are many angles to this problem, it is interesting to note that the government takes an active part in the question when it levies an inheritance tax. It feels that since the government's protection made possible such stores of wealth, a little compensation is due it, instead of letting the whole fortune pass on to those who have done little or nothing to earn it.

No doubt this wealth has done much for the nation as a whole. Only *big* business could engage in large-scale production as it is carried on to-day. This type of business has made present-day commerce, industry, and civilization possible. Big business also may do much in the factories and shops to improve the conditions of the workingmen which small-scale business could not afford. It is only fair that the rich should do something to help their less fortunate brethren. There is some justification for great wealth when one consid-

ers the good that has sometimes resulted from it. Charitable institutions, hospitals, schools, libraries, and parks are examples of ways in which rich men have benefited the public.

Whether the rich are helpful to a nation or otherwise will depend largely upon the moral character of the men who have great means. Whatever one may think of the methods by which Rockefeller and Carnegie piled up their fortunes, one must be glad that they have been interested enough in their fellow men to give millions for the uplift of mankind. If all rich men had done as well, there would be less bitterness in the world to-day.

What would you do if you had a million dollars? Make a list of five men who in your opinion have used great wealth for the good of society. Would the things done by means of their wealth have been done without it? Mention five business activities of to-day affecting the everyday life of the people, which are made possible by the use of great wealth. How much would society lose if these were not carried on?

The possibility of satisfying one's wants varies greatly with each individual, or at least with each family, for there is a tremendous difference among the American people in respect to income. Certain items in the cost of living are fixed — that is, they must be met to some extent. The person or family with a moderate or large income does not have to spend as large a percentage of it on the essentials necessary to mere living, but can maintain a relatively high standard of comfort and have more to devote to the elements that uplift life. Much of the difficulty of families, even some who have a reasonably large income, comes from expenditures for unwise or harmful objects, or because of extravagance or lack of foresight. A budget system for handling one's finances is likely to be very helpful. Wealth, however acquired, often results in jealousy and class distinction, but modern industry could not operate without it. Many rich men have tried to use their wealth so as to make their fellow men happier and better.

Special Studies

Poverty in Our Community — Conditions and Causes
Resolved, That the Farmer is Better Off Economically than the City Factory Worker
Operating a Family Budget

Installment Buying — Its Benefits and Its Dangers
Wise Consumption and Harmful Consumption for John Smith, Business Man; Lawyer; Factory Worker; Farmer
The Cost of Living When Grandfather was a Boy
Early Training in Thrift
American Extravagance — Its Characteristics and Causes

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CHAPTER XV

SAVING AND INVESTING

To catch Dame Fortune's golden smile
Assiduous wait upon her,
And gather gear by every wile
That's justified by honor;
Not for to hide it in a hedge,
Not for a train attendant,
But for the glorious privilege
Of being independent.

— Burns

We have seen that one of our greatest problems in economics is the uneven distribution of the things we want, so that some have very many more than others. To the extent that this situation is the result of spending all that we get, it can surely be relieved by establishing habits of thrift and saving. Let us consider the importance of these habits. Let us look into some of the possible ways of using our surplus earnings, large or small, and discover their bearing upon our individual, family, and community welfare.

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142. Why Save? — Some people seem rather dubious about the advisability of saving. Their motto is the old one, "Eat, drink and be merry, for to-morrow you die." Unfortunately for many who do try out this philosophy and spend all their money to-day, to-morrow does come, and they spend it in misery, hunger, and destitution, or else become a charge on the community.

Could there be anything worse to an old person than the realization that he is superfluous in the world and that not only is he not wanted but that he is an unwelcome burden on his sons and daughters? For it is a lamentable fact that the majority of children have no desire to take their aged

parents into their homes. Another fate, sometimes still worse, for those short-sighted old people is to have to go to the poorhouse or other charitable institution. To a young person such an occurrence seems far off and unreal but unfortunately age or helplessness comes all too soon and often finds one unprepared.

One of the convincing reasons for saving is that thereby we have something to draw upon when in case of old age, sickness, accident, or some other unexpected event, we are unable to earn enough to supply our wants. If at such a time we have a store set aside in more prosperous years, we shall not become a burden upon others and shall be able to keep ourselves from poverty and humiliation, and our friends and the community from the expense and trouble of looking after us.

Besides, one who is trying to lay by something for a "rainy day" has an inspiration to work better and more faithfully than if he is undertaking merely to keep himself from starving and to have a "good time." We all need recreation, but "too much flour spoils the cake." The only way to establish prosperity among people in general and to give the world any advantage to-morrow which it does not possess to-day, is to save for to-morrow's needs something of what we have produced to-day. Society as well as the individual benefits from the right kind of saving.

Is the miser or the spendthrift more harmful to society? Is the fellow who spends every cent he gets happier than the one who saves some of his income?

Many people save with a definite end in view. Some children start very young to save for a college education, and you may be sure that when they get to college, it will mean much to them because they helped to get themselves there. Others save for extra comforts not otherwise procurable. A new car may bring added health and happiness to a family unless in saving for it they deny themselves things still more worth having.

Some of the wise spending that we mentioned in the last chapter may be possible only through saving. One possible beneficial and enjoyable result of saving is to be able to travel. What could be more interesting and enjoyable than visiting different parts of the world? Saving will make that dream come true. Instead of dribbling away your money

Keystone View Company

A Saturday Night Line-up at the Bank

Many banks now open for two hours on Saturday night to permit depositors to turn in the contents of a Saturday pay envelope. Many people think that banking hours are short, but there is much to be done besides receiving and handing out money.

for trifles, save for something worth while. A nice tidy sum in the bank also gives a feeling of security against emergencies, and it enables you to treat yourself to luxuries and pleasures that otherwise would be unattainable. All in all, saving is a very wise thing.

143. Establishing the Habit of Saving. — Noted wealthy men and great financiers agree on one thing — that saving can be made a habit. We joke about the remark, "That's how he got his start," but it is true, nevertheless. Once it becomes a habit, it will stay on like other habits, good and bad, and never leave you. One of the best ways to establish

Keystone View Company

SCHOOLBOY BANKERS

Many schools have savings funds which they operate under the direction of a teacher and in coöperation with some bank.

that habit is to become accustomed to putting aside out of your salary or allowance a certain sum each week. That sum is not to be touched and is to be taken out first of all. Include it first on the list in your home budget and never omit it!

It is fine for children to start the habit of saving. One of the best devices for that purpose is the school savings system used in the public schools. One day each week is known as Bank Day. An effort is made to have each child deposit

something, if only one cent. To further the habit prizes are sometimes given to the 100 per cent classes. Rivalry between classes and schools is encouraged. All reports indicate that the school savings plan is very successful.

Some people have no real conception of the value of money. Often they do not work for it, but as children learn to get it from their parents or from some other source. They establish the habit of spending money foolishly and wastefully. Unfortunately America has all too many spendthrifts. There are many reasons for their foolish spending, but the most important one is their lack of self-control. When they see a thing, they must buy it. They cannot govern themselves, though they would be terribly offended if you told them they were weak mentally or morally. Often environment has a great deal to do in encouraging or controlling spendthrifts. Association with others of the same kind or with those who take advantage of one's weakness may lead one to dangerous extremes.

In courses on salesmanship ways are often discussed of breaking down "sales resistance." Very good for the salesman, perhaps, but what about the effect of getting people to spend money for something that they do not need and that gives them only passing satisfaction? It would be well if in our schools we should learn something about developing "sales resistance" against those who would urge upon us for their own profit some useless or wasteful expenditure. We can have more than we need of even insurance or parlor chairs.

Are there people who actually cannot save? How much money have you saved? How do you feel about saving?

144. Thrift. — We are often urged to cultivate thrift. Just what is it? There are several ways of defining it. Here are a few:

Thrift is wise and economical consumption.
Thrift is the conservation of consumption.
Thrift is making the best of what you have.
Thrift is an economical use of time, labor, and money.

Thrift means much more than saving, although that is one form of thrift. Thrift is also very different from stinginess. One way of being thrifty is by avoiding harmful and foolish consumption. Another way is to avoid waste and to buy intelligently and economically. A thrifty person, too, takes good care of the things he already has.

Ewing Galloway

BILLIONS FROM WASTE

The use of waste in making valuable products is an important feature of many industries. These enormous piles of scrap iron will actually be used in the operations of a firm at Steubenville, Ohio.

The value of thrift is inestimable. When we are saving and striving and being as economical as possible, we can look forward to future enjoyment. This, unfortunately, many people are not eager to do. Yet both present security and future security are assured to the thrifty person, as much as anything human can be. Thrift, when we are young, means the establishment of desirable habits which will make us happier in our future life. In being thrifty we bene-

fit both ourselves and others. "Thrift builds men and cities."

Will a thrifty school pupil buy an athletic ticket, own a tennis racquet, contribute to church, pay fines on library books, go to the movies, own three or more pairs of shoes, walk to school? Will he act the same under all circumstances with reference to such matters as these?

145. The Wrong Kind of Saving. — One extreme is about as bad as the other. In fact, some would go so far as to say foolish hoarding of money is worse than the unwise spending of it. At least the spendthrift indirectly helps other people by putting his money in circulation and giving employment to people, though not always in the right industries.

Hoarding is foolish because, while looking at the money may give you a false sense of security, you are in reality cheating yourself. Are you not actually robbing yourself of health when you scrimp on the bare necessities of life? Ill health results in loss of work and subsequent doctor's bills, so in the long run you lose rather than gain money. Money is a very good thing to have but good health is far more desirable. Such hoarding is false economy.

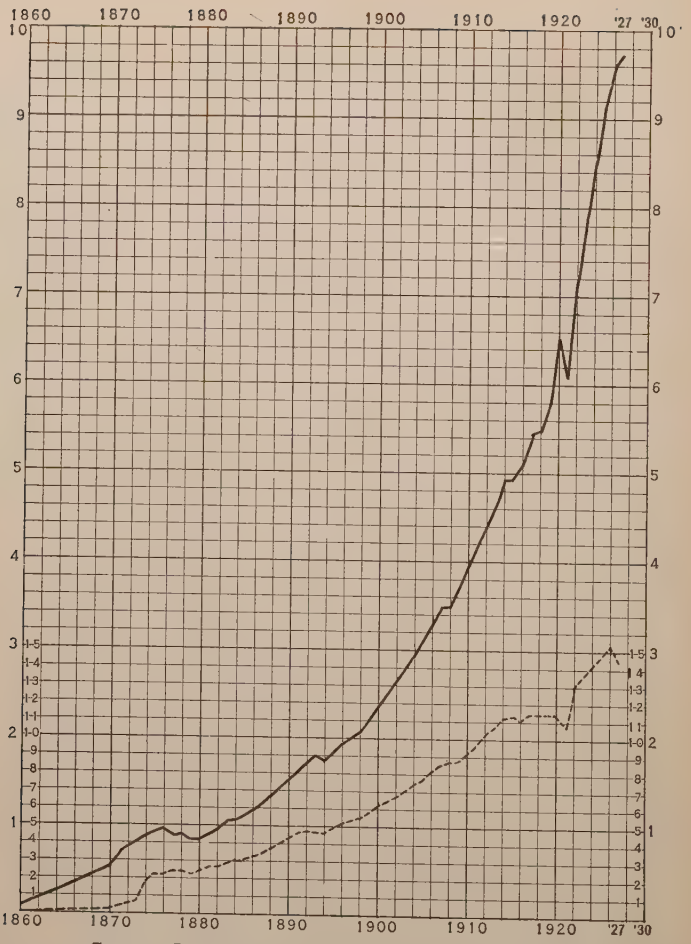
A miser not only hurts himself but involves other people as well. He gets no interest on his money as he would if he invested it or deposited it in a reliable bank. He does no good to the world with his money. He does not give to charity or to those in need, and he himself derives no worthy pleasure from the gold.

146. Savings That Are Safe. — Just what constitutes a safe investment? It is the placing of money in some form of business activity which seems sure to keep the principal safe and to return interest or profit to the investor. To some extent an element of chance enters into almost every investment; but we may consider an investment safe if it is in the hands of men whose reputation for honesty and sound business methods is high and if the business rests on a solid basis financially.

There are two kinds of savings: those which one can readily get hold of when he wishes, and those which are invested in a somewhat more permanent form. Usually it is well to have some of our savings in each of these forms. One can never tell when he may have some special reason for using a few hundred dollars on short notice. On the other hand, if all his money is invested in places where he can get hold of it any time he pleases, he may be tempted to take unnecessary risks with it or to spend it when he would do better to hold on to it.

In the first class of savings, we may mention deposits in savings banks and similar institutions, investments in government bonds, and the like. Most savings of such forms as these can be turned into money under ordinary circumstances on not more than a few days' notice. While government bonds seldom go up very much above par, and have sold even below that figure, one usually has little trouble in disposing of them when he wishes to get cash. Of course, there are some people who are afraid to put their money into the care of a bank, but they should remember that while the failure of one bank may attract much attention, there are thousands of banks at the same time carrying on an honest, safe, and prosperous business. In any case money left in the care of a bank is as safe as if it were hidden anywhere around the house, and as long as it is in the bank it will be adding to itself constantly. Money which is not working for you is doing you practically no good.

If a person succeeds in laying by more than a moderate sum, however, he will do well to put it into some other form than savings bank deposits. 4 or $4\frac{1}{2}$ per cent interest is about the best he can expect there, and some other investments are in themselves safe within all reasonable assurance. The bonds issued by states and most of the cities of the country are likely to be safe, because no city will care to acquire the reputation of not meeting its honest obligations. Bonds of industries of a recognized and substantial character are often



Savings Banks in the United States, 1860–1927

The outside figures and the solid line represent the fluctuation in savings banks deposits in billions of dollars. The inner figures and the broken line represent depositors in millions. The number of depositors seems to have reached a peak and started down, while the total deposits continue to go up. Does this difference have any significance? This diagram does not cover other savings accounts than those in savings banks.

entirely acceptable as an investment. One must judge for himself, of course, or rely on the advice of an experienced person as to the substantial nature of the concern which issues them.

Some recommend insurance as a form of investment. There is no doubt that insurance is a valuable form of savings for one who has any persons depending upon him for support. The varieties of insurance policies are innumerable. But since the insurance company must pay its running expenses and make a profit besides, it cannot afford to pay as high a rate of interest as one may get from other investments.

Find out from an insurance agent what would be the yearly premium on a life insurance policy for $10,000 at your own age, at the age of 28, 38, 48, 58, under each of the following plans: straight life insurance, twenty payment life, endowment. Which type of policy seems to you most suitable for the average person at each of the ages mentioned? Why?

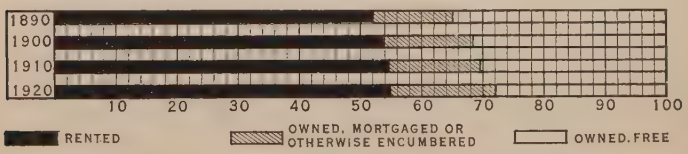
Some years ago numerous fraternal insurance orders were started which offered policies for $500, $1000, $2000, at rates considerably below those charged by regular insurance companies. On what theory did these organizations hope to succeed? Why have many of them gone out of business?

Investments in houses and other kinds of buildings are more permanent in their character. First mortgages on real estate are often recommended as bringing in good returns and being quite safe and reliable. This kind of investment, however, is not always easy to turn into ready cash, for the person from whom the mortgage is taken may not always be able to meet a demand for payment, and the legal process required in selling the property in order to obtain the amount due on the mortgage is sometimes long and complicated.

What is the difference between a first mortgage and a second mortgage?

For many people, especially those who feel that they are not likely to move from their present surroundings, it is sound advice to urge them to invest their savings in owning a

home. One who owns the place where he lives is likely to have an inspiration to work for its improvement and care, which would probably not be felt by one who is paying rent. Besides, he is not always looking for another place to go to, and he can settle down with reasonable satisfaction where he is. If one has bought a place and must pay for it on the installment plan, there is a compulsion to make savings such as are not called for by any other form of investment except life insurance. Of course, if one is not at all certain about staying in the town where he is situated or fears that changes will occur in the neighborhood where he thinks of



THE STATUS OF HOME OWNERSHIP IN THE UNITED STATES

The markings on the cross bars show the percentage of homes rented or owned and if owned, whether free or encumbered. Notice the slow but steady increase in the proportion of rented and mortgaged homes. Do you suppose this tendency will continue? What effects, social or economic, might it produce?

buying, he may properly think twice before tying himself down by purchasing a house for his own use.

The renting of houses, especially of the smaller type, is a comparatively easy and very profitable means of making money. Apartments, too, are very profitable investments if they are situated in a neighborhood where they can be easily rented. But the community where a large portion of the people own their own homes is likely to have a substantial character that cannot exist otherwise.

How large a proportion of your class and your community own their own homes? Are Christmas savings funds really useful?

An investor in government or corporation securities will do well to know something about the terms used by brokers in discussing them. Stocks and bonds we have already defined. In connection

with bonds, find out from some banker or broker the meaning of the following terms: coupon, callable, guaranteed, mortgage bond, debenture, registered bond. In connection with stocks, inquire about: cumulative, non-cumulative; par, no-par; participating, non-participating; stock dividends; strong, weak; long, short.

In your investments there are some other points to be considered in addition to the prime requirement of *safety*. One is *marketability*. Can you easily dispose of your stock or bonds in case you want to do so? Some perfectly sound securities might not have a ready sale if they were issued by a corporation not widely known. If you have no intention of selling the securities, this item would not bother you much. Another element is *diversification*. If you own any considerable number of stocks and bonds, they should not, as a rule, all have been issued by the same corporation. Five good railroad bonds, five power company, five municipal bonds, and five oil company bonds, for instance, would be better for the ordinary investor than to have twenty of one kind or even ten of two kinds.

In addition, buy from banks or brokers who have a record of honest and sound business. These people cannot afford to endanger their reputation by trying to sell you worthless securities. Perhaps an honest broker might try to sell you bonds of the Smith Brothers Corporation rather than of the Hicksville Power Company because he would make more out of the sale himself; but such a man would not deal in Smith Brothers bonds at all if he did not think they were safe.

A corporation has issued $10,000,000 of 7% preferred stock, par value 100; $10,000,000 of common stock, no par value; $5,000,000 of 6% bonds, payable in twenty years or, at the option of the company, at the end of any five-year period. For a certain year its net earnings before paying interest on the bonds are $5,000,000. How will that $5,000,000 be distributed, assuming that in this case no expansion of the plant is contemplated? Under normal conditions would the market price of the bonds go above 100? If the rate of earnings continues at approximately the figure indicated, what is likely to be the market price of the preferred and the common stock? Under those circumstances what is likely to happen to the bonds at

the end of five years? What would be your recommendation as to the advisability of the different forms of investment possible in this corporation? Would your recommendation differ as between different types of individuals?

147. Foolish Investments. — We have referred to the temptation to put money into investments which some one says are going to bring in big returns. Probably most of us some time or other are smitten with the idea that we should like to get rich fast. It seems to be human nature to want to get something for nothing and to be willing to listen to extravagant promises of riches.

If a man should come to us and say, " I have an offer to make you which will require you to risk the savings you have laboriously put aside for a rainy day, with the chances a hundred to one that you will get nothing back," we should be likely to advise him to " tell it to Sweeney " or to the Marines or some other distant party. But that is exactly how many offers presented to the unwary would be stated if the truth were told.

Unsafe investment and speculative investment, while not the same, are very closely related. *Investment* is the use of money to earn returns. *Speculation* involves the use of money where the element of risk is very high and where the possibility may exist either of large returns or of none at all. In some cases, a man's use of his money in honest investment may be to some extent speculative.

There are innumerable schemes used by unscrupulous people to rob the ignorant or unsuspecting. These promoters of bad deals do not hesitate to take money from old folks, widows, or poor people. They concoct schemes which seem to promise to make one a millionaire overnight and sound so inviting that some people fall over each other to put their savings into these risky speculations.

The forms in which these bad investments are presented to the public are so exaggerated that one wonders why people " fall " for them. Stock in an oil well selling for two cents

a share would seem unlikely to attract anybody. Yet sometimes clever promoters boost such stock to several dollars a share and promise enormous dividends which, of course, are never forthcoming. The promoters usually disappear after they have made their clean-up.

If you ask why the man who steals your money in this way is not more often exposed, the answer is easy. People who put their money into this kind of investment and lose it do not care to have any one know about it. They will stand the loss rather than let the world know they were "suckers." Besides, it is sometimes the small-salaried professional man, the minister or teacher, the struggling young doctor or lawyer who falls into the trap, and who fears that his reputation would be harmed if his mistake became generally known.

The thing that makes this type of speculation more dangerous than anything else is the fact that in one case out of a thousand the speculator may succeed. The effect of this is astounding. Immediately the unfortunate 999 who may be left destitute, robbed of their savings, are forgotten. If oil is found on one piece of land, all the land around takes on an added value. But all the wells may not be productive, and again the majority lose all they risk.

Speculation in land is also quite common. A certain part of the country because of various reasons suddenly enjoys a "boom." Land values change quickly. Land thought worthless becomes valuable when a new bridge or road or railroad is built. Then, too, such a thing as building a grocery shop or factory in a certain residential section lowers the value of land in that neighborhood. Extreme caution and care should be exercised when one thinks of participating in land speculation.

Always look with suspicion upon any opportunity for wealth which is glaringly and loudly advertised. Always investigate carefully into any proposition which promises to pay dividends of eight, ten, twelve, or more per cent. You can be sure that people who really have money to invest,

and much of it, are looking for opportunities where it is safe and at the same time bringing in large returns. It is seldom necessary for people who have a really good investment to beg for people to come and put their money into it.

Another caution is: Do not invest in something that you know nothing about. Find out who is back of a proposition, whether he has been successful in business himself, and, above all, be sure of why he is offering you the chance to get in on it. It is true that a person who follows this advice may one time in a thousand miss a chance to get large returns on a small investment, but with the odds against him so large as they undoubtedly are, he will do well always to play it safe.

What should you want to know about the following stocks or bonds before investing: The issues of a baking company in your own town? Of a Mexican mining company? Of Texas oil stock? Of bonds to put up a Masonic temple in Yuma? Of street railway stock in Connecticut?

148. The Effects and Uses of Speculation. — Moreover, until you have enough money so that you can lose most of it and still not suffer, let speculation and buying on margin alone. The buyer on a margin has no intention of keeping the stock he is buying. Perhaps he intends to risk only 10 per cent of the market value of what he buys. Suppose he orders his broker to buy 1000 shares of Consolidated Gas, preferred, at 90, and expects it to go up to par. He puts up $10,000 in cash and the broker borrows $80,000 for him, using as collateral the certificate of the stock. If it does go up to 100, he will sell at an advance of $10 a share and "clean up" $10,000, less the broker's charges and interest on the money borrowed. If, instead, the stock starts to drop, the broker will probably advise his client to sell at, say, 85 rather than let it go any further. Then he will have to pay out of the $10,000, the broker's charges and the interest as well as the $5000 difference between what he sells the stock for and what he had to pay for it. Very

bad business if you lose, and dangerous business even if you win!

We are told that speculation when engaged in as an honest business has some good effects, however. (1) Speculation helps to *stabilize prices*. Suppose a trader thinks that cotton is going to be higher next spring than it is now — January 1. If he buys cotton now, he thinks he can sell it for a higher price in April. So he buys, and perhaps others who think as he does also buy. This practice is called dealing in futures. The result is to increase the demand in January, and to raise the price somewhat. Perhaps this same extra demand will reduce the demand in April so that the price will not go as high as it otherwise would.[1]

(2) Furthermore, speculation *distributes risks* more widely. If it were not for the speculator who makes this his own game, the manufacturer would himself have to be playing the market constantly. As it is, he needs only to keep an eye on the general course of events, buying as he may need the raw material to be delivered when he wants it. Be sure you understand that the speculator does not actually handle wheat, corn, or cotton, himself. All that he buys and sells is *the right to have* a thousand bushels or bales or whatever it may

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[1] Sometimes individuals in order to protect themselves from possible losses as a result of changing prices, engage in a practice known as *hedging*. A buyer who needs wheat, cotton, or something else in considerable quantity at once, not only *buys* what he needs now, but also makes a contract to *sell* a corresponding quantity at a future date at what he considers will be the market price then. The two deals help to balance each other as far as their effect on the price of the commodity is concerned. When the time comes to fulfill his contract for sale, if he can secure the commodity at a lower price than he expected, his profit on that deal will make up for any loss resulting from the fall in prices of the goods made from the first purchase. If in order to meet his sale contract he has paid more for the commodity than he expected, the price of the goods made from his purchase will also have gone up proportionately. So he won't lose either way.

be. He passes over this right, when he sells, to the miller or the cotton manufacturer, as the case may be. Then only are the goods actually removed from the warehouse or other place of storage to the factory.

The stock exchange in the large cities, especially New York, supplies a constant live market for the better grade of stocks and bonds. The Chicago Board of Trade in a similar way is a central wheat market for the world. Through

Ewing Galloway

THE SAN FRANCISCO STOCK AND BOND EXCHANGE

You see the ticker at the right with the tape coming out. Each man has a telephone ready for use. If the market had been lively, these men would not be sitting so peacefully in their chairs.

the trading at such places the price for whatever is bought and sold is kept nearer normal all over the world. Cornering the market in wheat or cotton or some other commodity has sometimes been tried. But the wider the market is for a commodity the less likely is a " corner " to be successful — like any other attempt at monopoly. Ridiculously high prices for anything can never be maintained very long.

These good results from speculation are not the conscious purpose of the speculator. He is not looking for the welfare of markets in general but to raise the size of his own profits. His business is perhaps not a gamble but there is temptation in it to gamble. Hence only the well-informed should ever speculate. The ignorant and the half-informed will win only by luck. They generally lose. For most of us, sound advice is — *don't do it!*

Puzzle this one out: "A speculator's service to society is measured by the extent to which he brings about something else than what he set out to do, but which would not have occurred if he had not made the undertaking in which he at least partially failed." After you get its meaning, is it true?

An editorial in *Nation's Business* for April, 1929, is entitled, "We Must Speculate." To whom could this possibly apply, and in what ways?

149. The Social Surplus. — The community as a whole may save and be thrifty as well as the individuals who make up the community. When a town or city collects taxes from its people to put up a school building or a library, or to buy a park or a playground, it is really saving. It takes some of the wealth of its citizens so they cannot use it all at once, and spends it for something that its people will use in the future. Every generation makes use of the improvements in methods of industry, in machinery for making goods, and in many other respects which have been provided by the generations before it. This collection of wealth which results from the savings of the past, but which does not particularly belong to individuals, is known as the *social surplus.*

The existence of a social surplus may be brought about in various ways. Learning the best way of doing things may make economies and savings possible. Repeatedly performing some industrial service, coupled with this increase of knowledge, will lead to a broader efficiency which will in turn result in social savings. Besides, as communities see

more clearly the benefits of coöperation, the laying by of a social surplus comes to be more easy and acceptable to the people. When Andrew Carnegie gave away his libraries, he almost invariably required that the community which received the building should agree to spend a certain amount each year to keep it in operation and to add to its facilities. He had no intention of simply playing Santa Claus. The

How One Community Used Some of Its Social Surplus

San Diego's wonderfully attractive high school plant and stadium represent one wise way to use community wealth for public benefit.

community itself must work together to enjoy the advantages which he was willing to help them acquire.

Many helpful results accompany the accumulation of the social surplus. People in general can maintain a higher standard of living. The strain and stress upon individuals to provide for their own needs will be greatly lessened when they can take advantage of the provisions which the community as a whole can make. More individuals will be able to spend wisely and thereby promote business activity, when otherwise they would be forced to refrain from such

expenditures. When a city has street-car lines reaching to every part of its territory, fewer people need to own automobiles. When a community has its public library, its citizens do not have to buy as many books and magazines as they would otherwise need to buy in order to keep themselves well informed. When a community has a good school system, no one needs to spend money from his own private pocketbook to educate himself or his family, except as he pays taxes in proportion to the wealth that he possesses.

What advantages does your community offer its citizens to-day that were not available to your father or grandfather at your age, but which are the result of the sacrifice or saving of the people who lived at those times?

In spite of the vast gulf between our richest men and the rest of us, most of us save something or could if we would. Habits of saving and thrift can be established. What shall we do with our surplus? Hoarding is useless. To spend money for education, travel, and reasonable comfort is both justifiable and uplifting. Investment — making one's savings work for him — is the program of a sensible man. For the great majority, savings bank deposits, government bonds, and other conservative securities, real estate, and, above all, a family home, are especially appropriate. Get-rich-quick schemes and pure speculation should be avoided like the plague. Those who can afford to lose are the only ones who should go into even honest speculation. Community saving is as desirable as individual saving. The social surplus accumulated by the community enables its members to enjoy advantages which would otherwise be impossible.

Special Studies

The Expense Account of a Typical Family
Money Kings and How They Got It
Resolved, That Owning a Home Should Be the Settled Aim of Every Family
Resolved, That No Man Should Bequeath to His Family More than a Living Income
Playing the Market
Mortgages — as the Owner Sees Them and as the Investor Sees Them
Investment for a Person of Moderate Means

Foolish Economies
A Successful Coöperative Association
The Possibility of Coöperative Buying and Selling for Farmers
The Possibility of Coöperative Buying and Selling for City Workers

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Carret, *The Art of Speculation*
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PART VI: THE GOVERNMENT IN ECONOMICS

CHAPTER XVI

GOVERNMENTAL CONTROL OF BUSINESS

Wherever the law gives unjust advantage, wherever it fails by suitable prohibition or regulation, to protect the interests of the people, wherever the power derived from the state is turned against the state there is not only room, but urgent necessity, for the assertion of the power of the state to enforce the common right. — CHARLES E. HUGHES

Up to this point we have discussed generally the business man's or the individual's work, with only incidental references to any control exercised by the government. It is important to remember that our present industrial structure can be maintained and operated only with the support and protection that the government alone can give. The next question is, How far should the government go in protecting, supporting, and restraining industrial development, and how far should such development be left to private enterprises?

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150. Private Property as a Factor in Progress. — Just what is private property and what are its benefits? *Private property* is the right of a person or group to possess and use something to the exclusion of others. It is a natural development. It began when the early cave man found or made a club which he claimed as his own and which was distinct from the property of all others.

There is born in us a desire for possession. A man rightfully feels that when he has worked and struggled for a thing, the possession of it should be his alone. A most important result of the desire for private property is that it acts as an

incentive to work — makes a man ambitious. Some would even go so far as to say that the hope of getting private property is responsible for the economic progress that the world has made.

However, if the government did not limit the power to hold and use private property, what a world this would be! If a person uses his possessions so as to injure other people, those possessions or the right to use them must be taken away from him. For instance, if a driver of a car has killed or injured people by reckless driving, he properly should be deprived of his license to drive or the community as a whole may suffer.

Would love of your work be a strong enough incentive to keep you engaged in it without the hope of getting private property through its help? Make a list of things which your father or some other self-supporting relative now does, but which he would not do if he did not enjoy the right of private property.

151. The Government's Responsibilities toward Private Business. — Some functions of government are called *constituent*, meaning those activities which must be rendered by the government if they are to be performed at all, such as the care of our relations with foreign countries, the support of an army, a navy, or a police force, and the punishment and prevention of crime.

Other functions are called *ministrant*. These activities the government undertakes not because it must, but because it will promote the people's welfare by so doing. In discussing the government's relation to private business we are likely to start with constituent functions, but we seem to demand steadily more of the ministrant variety.

In addition to the right of private property itself, we demand that the government shall accept some responsibilities in connection with it. The basic responsibility is the protection of life and property. We want ourselves and our possessions to be thoroughly safeguarded. So we insist that the government shall not stand calmly by and watch a par-

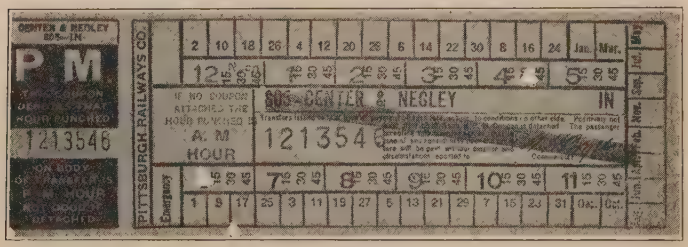
ticular individual or business injure the health or welfare of the people. In that case it is the government's duty to interfere.

The government also has the responsibility of regulating the conditions under which business should be conducted. And why? Because men honestly disagree about the right and wrong of some things and there must be some judge, and because some men would totally disregard the rights of others if they were free to do so. That is why we have child labor laws, minimum wage laws, compensation acts, laws to enforce fair practices in business, and laws regarding the treatment of employees. No other agency except the government can supply those restrictions or define the conditions under which business should be regulated.

"Salus populi suprema lex esto" — let the safety of the people be the supreme law. A mighty fine slogan! Business has no excuse for existence unless the public is served by it. The public welfare must come first. The people should not be made to suffer through the wrongful acts of individuals or corporations. Their right to be free in the use of their homes and possessions must be assured. May we go so far as to say that the people should not be deprived of necessities because of business or labor disputes? The question suggests one problem which neither the government nor private citizens have as yet worked out.

152. How the Government Aids Business. — One can easily imagine the chaos that would result if every business man set up his own particular rules of operation and respected no one else's. To prevent any such disastrous situation customs grow up which most people respect and which the government transforms into laws defining the rights, privileges, and duties of the business man. If these rights are not respected, the offended person can resort to the courts for relief, and if the offender flouts the government's own authority, he may be fined or sent to jail.

Most business relations are governed by contracts or agreements. Legally speaking, a *contract* is an agreement between two or more parties resulting from an offer and its acceptance. However, not all agreements are contracts. A contract must be legally enforceable. It must be in writing and must be the voluntary act of all parties concerned in it. Insane persons, idiots, and minors are not competent persons and cannot enter into a contract. The law protects both parties when the contract is legal by



Is This a Contract?

You will probably recognize this as a street car transfer. Does it possess the requirements of a lawful contract? If not, why not?

either demanding its enforcement or punishing the party who does not keep his side of the bargain.

Can *you* make a contract? What is the law of your state on this point?

With the rise of big business came the corporation. Here again new laws were deemed necessary to protect the interests of all the parties concerned. Before a corporation can be created, the authorization of the state is necessary. This is given to the corporation by means of a *charter*. A corporation may continue indefinitely or for a fixed period, and may act in many respects as an individual. This charter may be taken away if there are sufficient grounds for such action, as forming an unlawful trust or monopoly.

Much valuable assistance from the government to business firms and individuals is given in the form of bulletins or reports. The everyday services of the Weather Bureau

are of vital importance to aviators and a distinct economic benefit to thousands of other people daily, as well as of interest to those who are merely inquisitive or who want to know whether the rain is going to spoil the picnic to-morrow. Bulletins in regard to the cotton crop or the wheat crop, for example, may help both the farmer and the business man to plan properly for either an over-supply or a lack of these commodities. The information secured by the agents (commercial attachés) of our Department of Commerce abroad may be very helpful to business men engaged in foreign trade. Statistics about past and present conditions may, if properly studied, guide business men in avoiding mistakes or planning more wisely for the future.

Sometimes governments go still further and give direct financial aid to those engaged in certain activities. Some governments have given or lent large amounts of money, commonly called *subsidies*, to aid shipping and aviation companies, for instance, in establishing and building up a substantial business (§ 160). We have occasionally offered bounties to certain producers, such as for a time we gave to sugar growers in this country to help them compete with foreign growers. But such direct payments out of the government treasury meet with more objection in this country than the indirect but nevertheless material assistance assured by protective tariffs (§ 153). In the latter way the assistance to particular lines of business comes in the form of taxes which raise the cost of foreign goods. But since such taxes can be levied only by the government, that sort of aid to business must come through governmental action, if at all.

Is it a sign of cowardice or lack of enterprise on the part of a business man if he seeks special favors from the government in the form of bounties or tariffs? Can a government secure information of value to business men more readily than the business men themselves could?

Tariffs may be either of two kinds. A *revenue tariff* has as its purpose the bringing of money into a nation's treasury;

it taxes at a low rate goods which are imported extensively. A *protective tariff* has as a definite object the increasing of the prices of foreign goods, so as to encourage the production of the same goods at home. It is clear that a revenue tariff will probably not interfere much with trade, particularly if the goods taxed are goods that must be imported anyway. England, for instance, imposes a tax on cocoa, which cannot possibly be produced in England. A protective tariff aims directly to exclude some foreign goods, and its rates may be so arranged as to interfere seriously with trade between nations.

153. The Protective Tariff. — To listen to the speeches that have been delivered in some political campaigns, one might be pardoned for thinking that the future of the nation depended upon whether the tax on steel was $1.00 a ton or $1.25. For a century the protective tariff has been a bone of contention in our political life. Many people have the notion that any tariff is necessarily protective. The word "tariff" itself simply means a rate charged, and it is only by custom that to-day we usually mean by it a duty on imported goods.

Just how does a protective tariff work? The amount of the tariff is added to what the foreign-made goods would otherwise cost when the consumer buys them from the importer or other dealer. A home producer can then add enough to the price he would otherwise charge to permit him to get almost or quite as much as the imported goods cost the consumer. Look at this table:

Cost to Supply Foreign Goods	Tariff	Foreign Goods Will Sell For	Cost to Supply Home Goods	Home Goods Will Sell For
$.40	0	.40	.50	—
.40	.05	.45	.50	—
.40	.10	.50	.50	.50
.40	.20	.60	.50	.58

If free trade prevails — that is, if there is no tariff on these foreign-made goods, which cost $.40 a yard, pound, or other unit, to produce and sell in our markets at a reasonable profit, it is plain that home producers will not undertake any business if it costs them $.50 per unit to do the same thing. If a tariff of $.05 per unit is imposed, the foreign goods will still sell for less than they can be produced here. The tariff will bring *revenue* into our treasury but will do no good to home producers. If the tariff is raised to $.10 the foreign-made goods will sell at the same price that home producers can afford to sell at. Home-made goods will now be produced and sold. This was President Taft's idea of a desirable *protective* tariff — one that would just equalize the cost of production at home and abroad. (It is not always easy to tell, by the way, just what foreign-made goods do cost to produce. Do not get the impression, either, that all goods cost more to produce here than in other countries, for that is not the case.) If the tariff is raised to $.20, the home producer gets a distinct advantage. He can raise his price eight or nine cents a yard, and still undersell the foreigner. In such conditions little or none of the foreign product will be imported.

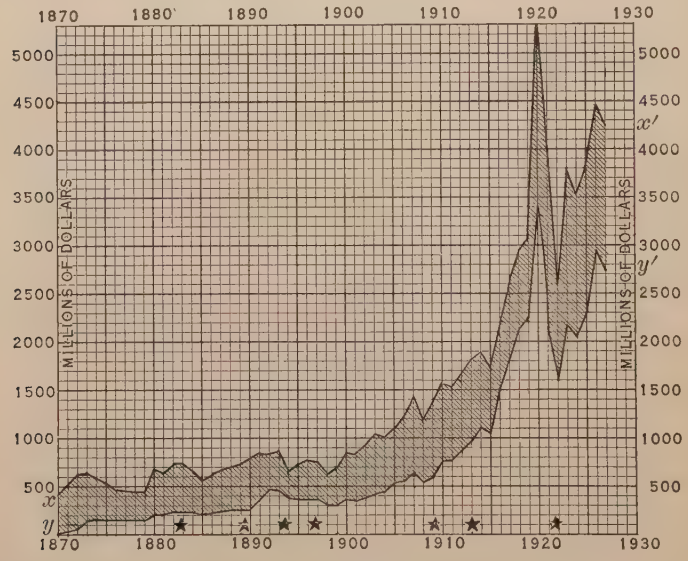
There are certain facts about tariffs we should be sure to remember:

(1) A high protective tariff does not necessarily increase a country's revenue. It may reduce it. If the duty on foreign oranges is a dollar a dozen, very few oranges will be imported and little revenue will be derived from that source.

(2) The *consumer* of the goods really pays the tariff, not the importer. The importer adds the amount of the duty to what he would otherwise charge the retailer or the customer. And if the tariff is high enough to keep out foreign goods, the home consumer may have to pay considerably more for home-made goods than he would have to pay for the foreign goods if they came in free.

(3) A high tariff does not necessarily mean "good times." We have had both good times and bad times in this country under high tariffs and under low tariffs. Other causes evidently help to determine whether or not the country is prosperous.

Is the protective tariff good for a nation? England had a protective tariff for a long time but found that it was impoverishing her people, and abolished it. Germany formerly did not have it, but when under the great Bismarck she began



Free and Dutiable Goods under Our Tariff Laws

The upper irregular line, x–x', indicates the total volume of imports for various dates reckoned in millions of dollars. The lower line, y–y', shows the total amount of free goods from time to time. The shaded irregular space between the two lines shows the relative volume of goods that paid duty. Can you explain the tremendous upward jump of the money value of goods to the peak of 1920? The stars show the years in which general tariff laws were passed. What seems to be the character of these laws with reference to the proportion of free and dutiable goods respectively? Do they seem to have had any effect upon the total volume of goods imported?

her extraordinary commercial and military advancement, she adopted a protective tariff. The United States has had a protective tariff for over a century — the "American System," as Henry Clay, who was most responsible for its adoption, called it.

Here are some of the *arguments for* it:

(1) *Industrial independence.* The friends of the protective tariff declare that it is necessary in order to make a nation independent. The oft-quoted statement of Horace Greeley, the editor for many years of the New York *Tribune*, was to this effect: "If I had my way, I would put a duty of one hundred dollars a ton on pig iron, and a proportionate duty on everything else that could be produced in America. The result would be that our people would be obliged to supply their own needs."

(2) *Security in war.* There is a certain kind of patriotism to which an argument of this kind must appeal. Undoubtedly in times of war a nation that can look out for itself is in better shape than one which is dependent upon others, but we hope that the time may come soon when great wars will be out of date. Carrying the protective tariff to such an extent as advocated by Horace Greeley does not cultivate cordiality or good understanding among the nations, and would get little support from intelligent people.

(3) *Protection of infant industries.* Another argument in favor of the protective tariff is that it supports "infant industries." Industries which are just beginning may need help. As long as the tariff is not unreasonably high, and if it is removed when the industry is no longer an infant, there is considerable justification for this use of the tariff, provided the industry is one for which the country is naturally fitted.

(4) *Encouragement of high wages.* It is also declared by believers in the protective tariff that the high wages paid to American labor are the results of the tariff. Perhaps there is something in this argument, for even in industries which are not protected the employer must pay wages equal to those which other workers get. *If* a protective tariff helps a manufacturer to pay high wages in his industry, it may be an indirect aid to workers in other occupations also. Other causes than the tariff, of course, assist in maintaining a high standard of wages in this country.

We should now notice some of the *arguments against* a pretective tariff.

(1) *Unwisdom of fostering unsuitable industries.* It is better, say the opponents of protection, that each country should produce the things for which it is naturally fitted. Any other policy leads to extravagance and waste. A country with such varied resources as the United States can produce in great variety anyway.

(2) *Special favors to big business and trusts.* After industries have grown up and are no longer " infants," they never want to let go of the advantage which the tariff gives them. Sometimes our laws have been so unintelligently drawn up that a manufacturer was enabled to charge more than would give him a reasonable profit, and even to sell his goods abroad at a lower price than he sold them at home. This kind of thing is not a necessary result of protection, but it has occurred so often as to disgust some people with the whole system.

(3) *Increased cost of living.* If wages are high as the result of the protective tariff, the question arises as to whether the cost of the goods is more than enough higher to make up for the wages. The opponents of protection say that in the long run the people of a country with a protective tariff pay more for what they use than they get in the form of higher wages.

(4) *Harmful influence on politics.* Industrial interests which want their products protected have sometimes used improper influences and corrupt methods in causing the passage of tariff laws. With the protection removed, the opponents of protection declare that one of the leading causes of political corruption would also disappear.

Two notable recent developments are the establishment of the Tariff Commission (1916), which has power to investigate the cost of production of commodities at home and abroad, and the granting by Congress to the President (1922) of the power to adjust duties which are seriously too

low or too high. The work of making most of our tariff laws has been very poorly performed. If we could only take the tariff out of politics and put the fixing of the rates into the hands of a really unprejudiced tariff commission, we should be much more likely to get fair results than when the question is the "football of politics." Such a commission would have to make recommendations to Congress when it thought rates should be changed, and Congress should get in the habit of following such recommendations.

So much of our industrial system has been built on the protective tariff idea that the sudden abolishing of the protective system would cause some very unpleasant results. A gradual removal of duties where it appears that high rates are no longer needed would be much better. No Chinese wall in the form of an unreasonable protective tariff will benefit this country or any other.

In spite of the high duties of 1922, further demands were made when Congress discussed the tariff in 1929. This time special effort was made to help the farmers. To raise duties on other goods used by farmers would, however, largely nullify any benefit from raising the tariff on farm products.

Is the development of cotton factories in the South likely to change the attitudes of Southerners on the tariff? In what sense may it be true that the tariff is a local issue? Can farmers be readily helped by a protective tariff? Who might object to such help?

154. Theories about Governmental Restraint of Business. — You will recall that when we spoke of the gild system (§ 50), we noticed a very close connection between government and industry. Then as time went on this connection became weaker and weaker until finally the gilds in England were declared illegal. During the last century, we have seen the reverse of this process working out.

At the end of the eighteenth century the favorite theory in regard to the connection of government with industry was that which had been preached by the Englishman, Adam Smith, and by the American, Thomas Jefferson. Smith

published in 1776 a famous book entitled, *An Inquiry into the Causes and Effects of the Wealth of Nations*. We commonly refer to it as *The Wealth of Nations*. It has had a wide influence on economic opinion ever since that time. " That government which governs best governs least," was Jefferson's doctrine.

The theory which both he and Adam Smith preached is usually called the *laissez-faire* theory. These two French words may be freely translated, " let things alone," " hands off," " let them take their own course." It was the idea that each individual should himself work his own way without the aid of the government and the best would survive.

In practice, however, this proposition did not work out so well. The " best " who survived were the rich and unscrupulous. The strongest prevailed and the weaker went to the wall. The interest of the people who were not directly concerned with any particular industry received no consideration whatever.

Events have forced us to modify that extreme doctrine. Now the majority of us accept the theory of *social regulation*, which means that the government regulates, advises, and helps, but does not take over or operate industry. It seems a rather sensible plan as compared to either extreme — no regulation at all or government operation of all important industries.

There are two forms of government regulation. For convenience, we may call these negative control and positive control. By negative control, we mean simply restraining business from doing harmful things. The prohibition of child labor, the laws against pooling of railroad interests, the acts forbidding trusts, are examples of negative control. Positive control undertakes to give definite direction to the course that industry shall take. One form of this is the protective tariff, which encourages particular industries that might not be undertaken successfully without governmental help. Another form of positive control has not yet become

so common. This involves direct participation by the government in business. Government operation of the railroads would be a step in this direction, and the adoption of socialist theories of industrial management (§ 177) would be going the whole way.

Should a person's attitude toward a question be governed by conditions as they are or by what he thinks things ought to be? Were the "good old days" superior to the present?

Regulation is supported by many people who would not consider for a moment government ownership and operation of industry in any form. Regulation still protects private individuals in the exercise of whatever enterprise, initiative, and intelligence they possess. As long as their methods are not harmful to the public, regulation does not interfere with them. Its sole object is to prevent the commission of acts which are contrary to public interests.

Sometimes honest questions and sometimes dishonest quibbles are raised about the constitutional power of the state or the nation to undertake this field of activity. Courts have sometimes taken a narrow view of the situation, and not so many years ago it was common for them to drop back to the old *laissez-faire* doctrine in matters of this kind. The right of the individual to work when he pleases, where he pleases, and under what conditions he pleases, they seemed to think they must defend at any cost, no matter how much he or the public were hurt by his doing so. As a matter of fact, this right always has been limited, for very few individuals have been in a position to enjoy such independence of action. Happily the courts to-day are as likely to consider the welfare of humanity as the technical points of law.

Much good has undoubtedly resulted from government regulation. Does it go further than it ought? Or do we have enough of it? In time of peace with no dangers or troubles threatening, perhaps we do. But when the World War was upon us, we found that we needed much more than we had dreamed of before.

Do you believe in interpreting the Constitution strictly or broadly in matters of governmental control? Did the Supreme Court consider the welfare of humanity in its decision in regard to a federal child labor law?

In the *socialist* theory we find the opposite extreme from the *laissez-faire* doctrine. The socialist doctrine holds that the government should take over all the fundamental industries, especially factories and other means of production, and leave only the non-essential ones in private hands. They hold that this will make for true equality and a better country for all the people. They think that the government is the only agency which should be given the responsibility of operating industries necessary to human life.

155. When Shall the Government Interfere in Business? — When business is good, does the welfare of the people in general improve? Do business prosperity and social welfare go side by side? Too often in prosperous times, when there is much talk by some people — those who are rich and getting richer — of how fine things are, when the newspapers tell us what a wonderful period we are having, the other side of the question hardly gets a hearing. Those who can invest or who already have capital, no doubt benefit, but the great majority of people may be no better off. Sometimes the "upper" class improves, and the "lower" class gets worse. Here again we see stressed the evils of class distinction.

Some industries are so important and vital to the people's welfare that the government must control or regulate them. They are "affected with the public interest," as the legal phrase goes. They are usually called public utilities (§ 163). That is one of the main reasons why every one is so interested in the management of the railroads. They have become so very necessary to the people that some people feel that the national government should control them entirely. The railroads of the country are really of national concern to-day, because communication and transportation play such an

important part in the lives of every one, and are so essential to industry and to the unity of the nation.

The same principle applies to local activities which influence the lives and health of all the people, as the water supply, the street car service, the milk supply, hydroelectric power, or lighting and heating arrangements. In many cities either the local government or one company attends to them. One can easily see how absurd it would be to have two street car companies in any but a very large city. This activity tends to be a natural monopoly, and as such serves the public interest best, but it needs to be controlled.

Discuss this statement: "The sole function of the government in relation to economics should be 'the formulation of the rules of the game' and 'the umpiring of the game.'"

156. The Coming of the Railroad. — The railroad and the activities which it made possible are most responsible for the intervention of our national government to restrain certain business operations. But the railroad was a long time coming. George Washington never heard of what we call railroads. Thomas Jefferson knew only shortly before his death on that fiftieth Fourth of July that the Englishman George Stephenson was running a steam locomotive on iron rails (1825).

The canal was then the big thing in transportation. George Washington did know about canals and urged their construction. The Erie Canal, Governor Clinton's "big ditch," was opened in 1825. Perhaps no other one piece of work in furnishing transportation facilities had so direct an influence on American history as this. State legislatures and private companies provided money with great liberality to dig canals. Then in the midst of the canal boom, the railroads appeared. In a few years miles upon miles of canals were in the discard. The speedier iron horse was going to take the place of the four-legged plodder of the tow-path.

In the United States railroads were attempted as early as the time of Stephenson, but steam locomotives were not

used until a little later. The first railway system of the United States was the Baltimore and Ohio. The last living signer of the Declaration of Independence, Charles Carroll, turned the first sod for the construction of the road (1828) and said, with seemingly prophetic truth, that he considered his work that day second in importance only to what he did in July, 1776.

Courtesy F. X. Milholland, Baltimore and Ohio Railroad

TRAVEL IN THE EARLY DAYS OF THE RAILROAD

These cars and their passengers were part of a Centenary exhibition held by the Baltimore and Ohio in 1927.

The first railroads were short affairs, and a person traveling from Boston to Philadelphia or Buffalo would have to change cars at least six times. All over the country these short systems were constructed. Very likely money could not be secured at that time for longer lines. By and by the inconvenience of this state of affairs forced combinations of several short lines under one management.

The New York Central system was organized in 1853 out of the lines running from Albany to Buffalo and some smaller

side lines that contributed to them. Numerous other systems were brought together by the genius of great financiers, such as Cornelius Vanderbilt, James J. Hill, and E. H. Harriman, so that the entire railway business of the country, prior to the World War, was in the hands of a small number of people.

Lines reaching across the continent to the Pacific Coast were opened, beginning in 1869. The first of these trans-

Courtesy F. X. Milholland, Baltimore and Ohio Railroad

THE FIRST AND ONE OF THE LATEST

In front is Peter Cooper's "Tom Thumb," the first American-built locomotive. Back of it is one of the most recent fast passenger locomotives.

continental lines was the Union Pacific–Central Pacific from Omaha to San Francisco, which has been supplemented since by the Southern Pacific, the Northern Pacific, the Great Northern, and the Santa Fe. Shorter lines, which do not go all the way across the continent, serve as important feeders to some which do. From 1910 to 1924 an average of over one billion rides a year were taken annually by passengers on the railroads of the United States, and considerably more than two and one-half billion tons of freight are now carried yearly.

157. Evils in the Railroad Business. — Builders of the first railroads had to overcome the disbelief and ridicule which are always shown by those who do not appreciate a new thing. But as soon as people realized the wonderful services which the railroad was rendering, there was a great change in their attitude. They welcomed the railroad as a benefactor of unbounded goodness. Indeed, the first railroads were so much better than anything that had preceded them that one could overlook an occasional accident, such as scaring horses and occasionally killing cows on the track and people at grade crossings. Legislatures voted charters with free-handed generosity, and Congress granted the transcontinental roads enormous amounts of public land.

During the period after the Civil War, people came to realize that some railroad managers had abused the hospitality with which they had been welcomed. The fact was coming to light that railroads had been constructed which were not needed. In attempting to make these railroads pay and meet the cut-throat competition of other roads, railroad men were guilty of many harmful practices.

Would a railroad be likely to sell a ticket from New York to Chicago for $5? If so, when? Would it ever be profitable to do so?

(1) One evil was *discrimination*, that is, giving special favors to some that were not given to others. Men or corporations who would make large shipments over a road were secretly handed back, in the form of "rebates," part of what they were supposed to pay. Towns were favored by special lower rates or ruined by arbitrarily high rates.

(2) *High short-haul charges* made more trouble. A place midway between two larger towns might even be charged more for freight brought to it than a town at one end of a line had to pay for freight carried the whole distance. The railroad's excuse for so doing was that it actually cost more to handle small lots at a midway point than to carry large lots the whole way.

(3) In order to get rid of the expense and strain of competition, railroads sometimes entered into the arrangement known as *pooling*. Several railroads serving the same general territory, instead of trying to get business each for itself, would agree to divide their total receipts in accordance with a proportion they fixed in advance. Then since all the roads in the pool charged the same price, they could raise it "as high as traffic would bear," and the shippers who had goods to send were no better off if they dealt with one road than with another.

As these various evil practices came to light, more and more the question was asked why railroads are not subject to special regulation by the government. Indeed there are many reasons why the railroads, more than, for example, the Goodyear Tire and Rubber Company or the National Cash Register Company, are rightly subject to strict regulation and control by the government, in the interest of all the people. Prominent among these reasons are the following:

(1) The railroad very frequently takes on the character of a monopoly. There is one distinctly best route for a railroad between Springfield, Massachusetts, and New Haven, Connecticut. Every person shipping freight by rail between those places or riding in the passenger coaches is obliged to patronize that road.

(2) Many roads, particularly in the West, received financial help from the government in the form of gifts of public lands or actual loans of money. Surely they are under obligation to the government since they have been helped by it.

(3) In most cases, in order to build, the railroads either had to buy the land on which to lay tracks or get a permit to use it. When the government gave them land, the task was comparatively simple, but what happened when the route lay in the land of private property owners? If their charters gave them the power of eminent domain — and they usually did — the railroads could exercise this power ordinarily

belonging only to the government itself. Under it a private owner could be forced to give up his land, providing, of course, he was properly reimbursed.

(4) The extraordinary size of the railroad business and the complete dependence of people upon the railroad for many of the necessities of life would, in itself, be reason

Courtesy of Westinghouse Electric and Manufacturing Company

ELECTRIC POWER ON A GREAT RAILROAD

Does the situation represented here suggest that the railroad has a monopoly? If so, is there any limitation upon the rates it charges?

enough that the people should have something to say about the way it was carried on.

We allow a fruit dealer to sell oranges to people at two for 5¢ or a dozen for 25¢. Is there any reason why we should find fault with the railroad for giving special rates to large shippers? Would absolute freedom of competition between railroads make it certain that reasonable rates would be charged?

158. The Interstate Commerce Commission. — In the Constitution of the United States, Congress was given one power which was allowed to slumber peacefully for nearly

one hundred years. This was the power to regulate commerce between the states. After the evils of which we have spoken came to light, several state legislatures tried to deal with them by law, but without much success. Since many roads traversed more than one state, it was impossible to regulate them properly. Even when different states tried to exert control, their policies were not uniform.

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THE INTERSTATE COMMERCE COMMISSION

Some state legislatures were by one means or another kept pretty well under the thumb of the railroads.

Finally, in 1887, Congress took up its unused weapon. It established an Interstate Commerce Commission, made up of five members appointed by the President, who had authority to require reports from railroads and to investigate conditions about which complaint was made. Not much real power was given to it, but its authority was extended more and more as time went on. It received the right to investigate without waiting for complaints and to fix the maximum rate which a railroad might charge (1906). Nat-

urally when the commission decides upon what the maximum rate shall be, that is the rate which the railroad will charge.

If new interstate railroads are proposed or consolidations of existing ones are planned, the Commission must give its approval. In addition to the railroads, telegraph and telephone lines, sleeping car companies, and oil pipe lines have been put under its authority and supervision. So much work has been intrusted to it that the number of its members has been enlarged to eleven. Railroads have found all kinds of fault with the I. C. C., as they call it, but it is certain that on the whole the public has been greatly benefited by the activities of the commission.

The fixing of rates is no easy task. A railroad, like a department store, is operated on the principle of *joint costs*. That is, a considerable part of the cost of operation must be met anyway, and the expense of handling additional business will be partly covered by the expenses already paid for tracks, stations, and the like. So it is hard to tell just how much it really costs to carry a passenger or a ton of coal from Pittsburgh to New York. Moreover, many considerations must enter into the reckoning. Neither the weight of a commodity, the space it occupies in a car, or the distance it is to go, can singly determine the rate to be charged.

When a railroad man declared that his road would charge "all the traffic would bear," many looked upon him as greedy and disregardful of the public's interests. What he meant, however, was that he would charge as high rates as he could without losing business. That sounds somewhat different, and it is only what a great many businesses do. It does not follow that such a policy is necessarily unreasonable, but it is a good idea to have a federal or state commission to act as umpire in the case.

Would the principle of joint costs apply to a grocer who thought of adding a fresh-meat department? Does your school charge "all the traffic will bear" for admission to concerts and athletic contests?

The shorter railroads are often entirely within one state. With such roads the Interstate Commerce Commission can do nothing. Many of the states have established state commissions under various names to look after the problems affecting the railroads entirely within the limits of the state. It is too much to expect that every state commission would always act in perfect harmony with every other, but they too have unquestionably been of service to the public and to the railroads as well.

Suppose a new commodity was just put on the market and you as a railway manager were asked to fix a rate for it, what items would you be obliged to take into account? Has a railroad the right to charge a lower rate than that permitted by the Interstate Commerce Commission?

159. Other Means of Transportation and Communication. — There are numerous other means of carrying goods or news from place to place which deserve mention. The post office, the oldest of all, is hardly within the field of our study, since it is a government monopoly and therefore not subject to the same limitations that a private corporation would be. Several of these other activities have, at times, been suggested as proper for our government to take over. In many nations, as is the case with railroads, they are a part of the government's postal system or are otherwise under government management.

Closely connected with the railroads is the express business, as we know it to-day. This began about 1837 when William F. Harnden began the business of carrying packages between Boston and New York. The enterprise thus humbly begun was extended, in the course of time, into several great express companies — the Adams Express Company, the Wells-Fargo Express Company, the American Express Company, the National, and the Southern. After many years of talk, our government established the parcel post as a branch of its post office system. This speedily made inroads upon the express business and cut down by considerable amounts the

profits of the express companies. During the World War a system of combinations was worked out among the surviving companies, which brought them all under the operation of what was known as the American Railway Express. Like the railroads, telegraph, and telephone, the express

Ewing Galloway

THE NOON HOUR RUSH IN A BIG CITY

Not only are the sidewalks well filled, but Fifth Avenue is crowded with all sorts of conveyances. Transportation and communication are as much of a problem in the big cities as in the rural districts, although for different reasons.

business is subject to the authority of the Interstate Commerce Commission, and the railroads themselves now operate it.

The genius of Samuel F. B. Morse first put electricity to practical use in sending messages by wire. After getting $30,000 from Congress in 1843 for a line between Baltimore and Washington, he succeeded in convincing the business men of the nation that his invention was of real value to

them. In the beginning there were many small telegraph companies organized, but after some years they were combined into two great companies and then into one, the Western Union. In 1922, there were in the United States about 253,000 miles of telegraph lines. By far the greater part of this is still in the Western Union System. It has one competitor in a considerable portion of the country, the Postal Telegraph.

The next step was to send the voice over the wires. When Alexander Graham Bell's invention was shown at the Centennial Exhibition in Philadelphia, in 1876, most people looked upon it as a freak or a toy. It was not many years, however, before it was in wide use. The Bell Telephone Company — technically the American Telephone and Telegraph Company — now controls an enormous proportion of all the telephone business of the United States. In 1928 it had nearly 60,000,000 miles of wire and employed over 328,000 people. Like the great telegraph companies, this has combined under one management a great many separate systems. At one time a combination between the Bell people and the Western Union was proposed, but it was abandoned when the government proposed to deal with the arrangement as a violation of the anti-trust laws (§ 161).

THE USE OF THE TELEPHONE

ESTIMATED COMPLETED CONVERSATIONS DAILY FOR YEAR ENDED JUNE 30, 1928	BELL SYSTEM	OTHER LINES	TOTAL FOR U. S.
Exchange Conversations . .	54,415,000	17,805,000	72,220,000
Toll Conversations	2,710,000	365,000	3,075,000
Total Conversations . . .	57,125,000	18,170,000	75,295,000

What is the average number of conversations per week for every man, woman, and child in the United States? Did you do your share? The telephone company urges commercial travelers to carry on a good deal of their business by telephone. What advantages or disadvantages do you see in this method?

The latest development in communication is the radio. The Italian Marconi deserves the greatest part of the credit for successfully sending messages through the air (1901) without the use of wires. Wireless stations, communicating over thousands of miles across the Atlantic and to all parts of this country, are now numerous. Indeed, now by means of the wireless telephone, London or Paris may talk with New York or Chicago.

Who would have imagined, until it actually did happen, that the air itself could be overloaded with messages breaking in on one another? But the shrieks and groans of many a radio outfit have proved it. Great radio stations such as KDKA, near Pittsburgh, and WGY, at Schenectady, developed enormous sending power, and countless small stations were set up by newspapers, stores, and even religious organizations. Special programs furnished by commercial firms provided a new form of advertising.

To bring some order out of the chaos, combinations of radio stations took place, just as was happening in almost everything else. The National Broadcasting Company and the Columbia Broadcasting Company, for instance, supplied "hook-ups" that carried advertising programs, presidential speeches, and the like, from coast to coast. Many millions of Americans have attended nominating conventions by radio and listened in on speeches, prize fights, World Series games, and New Year's football matches at Pasadena, and have heard the real Big Ben strike in their own dining room.

But still the problem remained, how to give the little fellows a chance and allow a person to escape Roxy or the Smith Brothers if he did not want to hear them? After considering numerous proposals, Congress created the Federal Radio Commission (1927) with power to determine who might and who might not maintain sending stations, what wave length each should employ, and the amount of power each might use. By the time you read these words some new development may have appeared.

The air is coming to be used for transportation as well as for sending messages. Only a prophet can tell how soon we shall take this means of calling on our friends or of keeping business engagements, but the use of airships or airplanes has already been employed for carrying mail and for transporting passengers and even freight to some extent. We

Ewing Galloway

AN AFTERNOON TRIP, NEW STYLE

This airplane travels between Detroit and Cleveland.

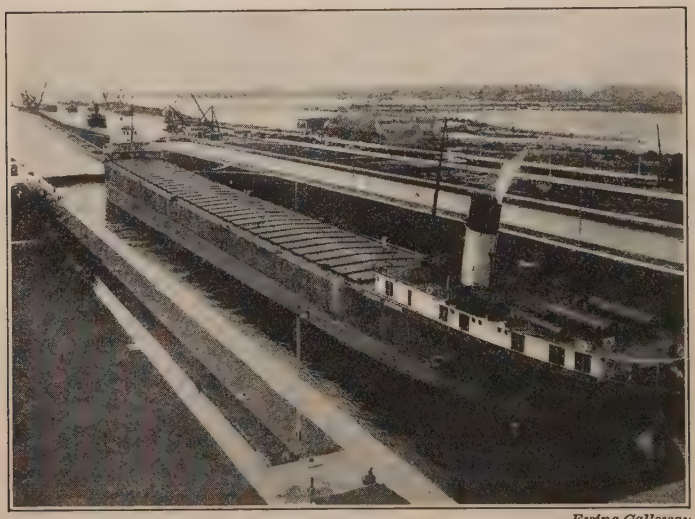
shall probably need to have regulations and restrictions covering this system of communication enacted and enforced by the national government and the states in the near future.

Why did the United States government dismantle private wireless systems during the war? If you had no telephone in your own home, would you be benefited by the invention of the instrument? If these means of communication should disappear, what would become of the newspapers?

160. Water Transportation. — We have already noticed that the railroads nearly wrecked the canal business. Rail-

road travel at its worst is faster than the canal, though it costs more. There are some goods which must go by rail if they are to be shipped any long distance. The icy winters of the North freeze up canals as well as brooks.

There are many goods — ores, steel products, wooden ware, cotton, and even some food products — which are not perishable in such a degree as to make it unsafe to trust them to



Ewing Galloway

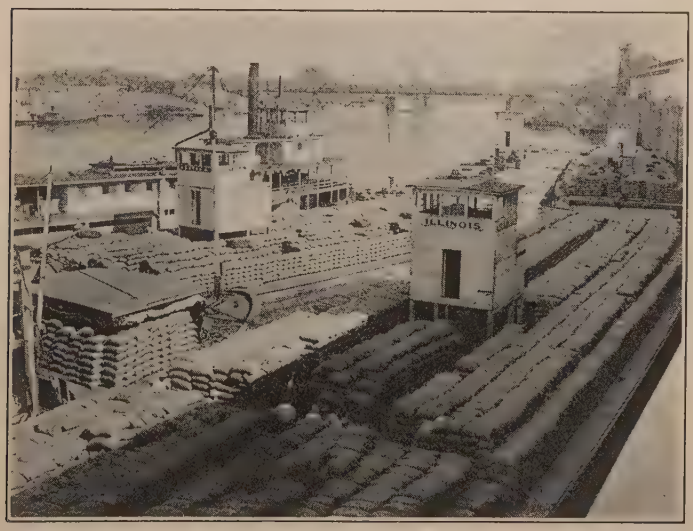
A Famous Canal

The "Soo" Canal between Lake Superior and Lake Michigan, shown here, carries more freight in a year than any other canal in the world. What are the chief kinds of freight transported on such boats as those in the picture?

water transportation. The saving in cost, as well as the fact that the railroads have frequently been asked to carry more freight than they could accommodate, have caused people to think seriously of extending the use of canals and to construct new means of water communication. A system of canals parallel to the Atlantic Coast, a few miles inland, is one of the most notable projects of recent years. Improve-

ments in rivers by means of locks or canals around rapids have also been numerous.

Our foreign trade, soon after we became independent, passed largely to ships under our own flag. Before and after the year 1800, we were the only great neutral power and we therefore were in a position to handle a good deal of the trade of other nations as well as our own. When we got into



River Transportation

These freight boats operate on the Sacramento River in California.

a second war with England, however, this commerce was almost completely ruined.

After a time the English government, desiring to build up her shipping business, adopted the policy of subsidies. That is, the government would actually give money out of its own treasury to private shipping companies to help them get their business established. The Cunard Line, beginning in 1839, was the first to send ships back and forth across the Atlantic at regular intervals on an extensive scale. The

United States gave subsidies to a few private companies for a little while. But people interested in other activities began to object to special aid to shipping firms, and finally the country stopped the policy. Even after the Civil War, when the Confederate commerce raiders had put American commerce almost off the ocean, the opposition to the granting of subsidies was strong enough to prevent its being again undertaken.

The World War seriously hampered the shipping business of Great Britain and other European countries and gave the United States a great chance. At the close of the war the United States stood second among the merchant marines of the world. But somehow other countries can carry on shipping more cheaply than we. It is hard to get American business men to go into the shipping business. The subsidy idea came up again but Congress would not accept it. In 1928, however, it did pass the Jones Bill offering to *lend* money under certain conditions to assist private shipping agencies.

161. Government Regulation of Business. — There are two main kinds of industrial strife which have made trouble for our country — fights between business men and business men, and fights between employers and their workers. Under the old *laissez-faire* theory personal morals and business morals seemed to be wholly different. Men who would not think of stealing a morning paper or picking a pansy in the park boasted of wrecking a railroad or forcing a competitor into bankruptcy. For many, business became merely a struggle for existence, and others gave up the undertaking as hopeless. They paid what they could to their creditors, or else sold out to their conqueror on his terms.

As long as there was a real struggle between competitors, the public got the benefit of it in low prices, but when the victor had entrenched himself in his place, up went the prices as high as it was safe for them to go. These conflicts bene-

fited the people only in a very slight degree and for a short time. We still have this thing going on in numerous forms, the small corner grocery against the chain store, the local storekeeper against the mail-order house, the little shop against the department store, the dealer who is content to do enough business to earn a respectable living against the tradesman who wants to grab everything in sight.

Congress waited even longer than in the case of the railroads before applying its powers of interstate commerce control to other big business. Much resentment was aroused by the formation of trusts and combinations to acquire a monopoly in their products either by buying out or underselling or by other means putting out of business their competitors. Several states passed laws about monopolies but it soon became apparent that the federal government would have to take a hand.

In 1890 the Sherman Anti-Trust Act was passed, which declared that " every contract, combination in form of trust, or otherwise, or conspiracy in restraint of trade or commerce among the several states or with foreign nations " was illegal. But just what was " conspiracy in restraint of trade "? Courts interpreted it variously and even the Supreme Court said " the rule of reason " must be applied to it. The law became virtually worthless, although the government won a case against the Standard Oil Company, the court commanding it to be split up into its original parts. Another victory, also not particularly effective, was gained over the so-called Beef Trust.

Another law was clearly necessary to strengthen the Sherman Act and to state the necessary restraints in more precise terms. So in 1914 the Clayton Anti-Trust Act was passed to make more distinct just what a corporation might and might not lawfully do. It must not make agreements with or acquire the stock of other corporations when such acts tend toward monopoly. In large corporations there must be no interlocking directorates. Labor unions and farmers'

organizations, however, were specifically exempted from the restrictions of the law, and it was declared that "labor is not a commodity."

In the long run is the community better served by many small stores or by a few big establishments? In what respects, if any, might labor be considered a commodity?

Congress also established the *Federal Trade Commission* in 1914. It is composed of five members, appointed by the President for seven-year terms. They were given the power to investigate any kind of business activities and determine whether improper practices were being indulged in by business interests. If they found any, they could recommend to the Department of Justice that the offenders should be prosecuted. They might themselves issue orders calling for the abandonment of improper business methods.

In several European countries, notably Germany, the government actually encourages and asks business firms to make arrangements known as *cartels*, by which uniform prices are agreed upon and coöperation in getting trade, especially abroad, is promoted. We have a law that authorizes exporters to do this on a mild scale, but it has not been of great service.

162. Should the Government Fix Prices? — Some people think that the government should carry its supervision of industry further than it has yet gone, and adopt some means of regulating the prices of the necessities of life. During the World War, the government actually did fix the price of wheat, and indirectly through a system of licensing dealers it controlled the price of such articles as bread and sugar. The supply of sugar, at several times, was considerably short of the amount which the country would have used, but its price was kept down to a figure that, on the whole, was reasonable.

May we ask, then, why should not some agencies be always in operation to prevent the robbing of the people by unjustly

high prices? One answer to this question might be that the Constitution gives no such power to Congress directly. These special laws were justified by the fact that war was going on. But since most important commodities are carried very extensively in interstate commerce, it would take only a little more stretching of the power of Congress to reach them.

The producer of articles whose prices might be limited by regulation usually does not like price fixing in any form. Some others object on the principle that the enforcement of such laws makes the government too inquisitive in regard to people's private business. Yet private greed must always take second place to public welfare.

But to permit Congress to pass laws declaring what the price of anything should be or to give anybody else the power to do so, would be unwise under ordinary conditions. The fixing of prices could hardly escape becoming an issue in politics. Men would run for Congress on a platform promising bread at five cents a loaf and other foolish things which could never be put into practice but which would help to get the support of the ignorant voter. Ordinarily the working of the laws of supply and demand will keep prices somewhere near where they belong. To attempt by a law of Congress to interfere with the working of a law of economics is likely to produce harm as well as good.

Farmers have sometimes been prominent in advocating government price-fixing, but they want the price of wheat, cotton, and other farm products kept up rather than down. They say we have a protective tariff which helps the manufacturer and makes farm tools and machinery cost more. Why shouldn't farmers get some government aid too? We do have a tariff on many farm products, but somehow the farmer himself does not get much benefit from it.

The McNary-Haugen Bill, passed by Congress in 1927 and 1928, was vetoed by President Coolidge and not passed over his veto. The President particularly disapproved of

the "equalization fee." This was a plan whereby a fixed price would be set for farm products and a fund of public money would be used to guarantee the farmer such a price. Its opponents declare that it would encourage overproduction and other undesirable results.

In 1929, however, President Hoover signed an act of Congress which established a Federal Farm Board of eight members, plus the Secretary of Agriculture, to have charge of the government's efforts to aid farmers. A fund of $500,000,000 was provided to loan to farmers' organizations to assist in marketing their products. Special attention is to be paid to the development of farmers' coöperative societies.

163. Special Present-Day Problems of Our Public Utilities. — *Public utilities*, as we have seen (§ 155), is a term used to refer to business activities which render services needed by the people as a whole, and are usually assisted and sometimes made possible by privileges granted by the public. They include gas companies, water companies, electric light companies, and bus lines, as well as the railroads. A very large part of the people of an entire community make use of these. They have been given the privilege of laying tracks or putting up poles and wires on the streets or of laying pipes underneath them. Sometimes they acquire the right of eminent domain (§ 168, end) or make use of water power or some other form of natural resources.

Why are they a problem? For several reasons: (1) A community needs their services, but for its own safety must control them rather than have them control the community. (2) Their finances are often difficult to understand. Sometimes there has been dishonesty or mistake in their management and the public seldom feels sure that it is not paying more than it ought for the services it receives. (3) Their control of natural resources and the fact that they must have public permission in the form of a franchise give the community or the state a special interest in their manage-

ment. Usually the public utility company resents what it calls interference on the part of the government. Especially since the vast development of hydroelectric power and the combination of small companies into larger ones, this phase of the question assumes particular importance. (4) The financial power of the great public utility companies worries people. They do not know how much influence such companies have with law-makers. They suspect more than they can prove about the use of money or of other means of getting newspapers and even college professors to give publicity to arguments favoring the public utilities.

Many public utilities cost so much to get started that they require a considerable capital investment. There are various ways by which this capital is obtained, not differing very much, perhaps, from the methods used by any private corporation. People who expect to reap a profit from the operation of railroads and the like must be expected also to risk some of their own wealth in investment in it. Almost always some stock is sold to any one who will buy, and bonds issued which may be taken by any investor. It is said that over 630,000 people to-day are stockholders in the railroads of the United States. We have already referred to the fact that many public utility corporations have made it a special point in recent years to get small amounts of stocks and bonds distributed rather widely into the hands of the people, so as to make them more favorably disposed toward public utility corporations.

Is it possible for public utilities to be exploited by speculative investors?

When a public utility company wants to raise its rates, there is usually a howl from the people. Yet sometimes there are good reasons why public utility companies may wish to do this. The cost of steel and every kind of raw material used by these companies is higher than when many of them were founded. Everywhere wages of their employees are at a higher level than years ago. The kind of service which

once would satisfy us we no longer would put up with. It is sometimes hard to determine when a company's request for increased charges is just, because we do not know their actual expenses or the purpose for which they wish to use the increased revenue. The great importance of the Public Service Commissions in the states is seen here. They are our only safeguard against dishonest officials who seek to put unreasonable burdens upon the public, when their own burdens have been increased only a little.

WHAT BECOMES OF A BOSTON ELEVATED COMPANY'S DIME

Ten cents is the regular fare on the lines controlled by the Boston Elevated, although for certain trips tickets are sold at a lower figure. The circle shows the chief objects of expense of the company, taking ten cents as the basis for reckoning the company's cost of operation. The company's statement is that its receipts per passenger average 9.629¢, the cost of service 9.606¢. At this rate the company has to carry four passengers before it makes a cent.

The street railways deserve serious thought. They have been stretched over every part of the nation. There were in 1917 over 48,000 miles of electric lines and over 1000 companies engaged in this kind of transportation.[1] Many of these serve rural communities, where the amount of traffic may never be very great and where no favorable conditions exist to make their profits unduly large. Even in the cities where the amount of business done is enormous, the problems which we have already mentioned have caused the managers of street-car companies real trouble in the attempt to make both ends meet. The old five cent fare, which at one time we even talked of cutting down to three cents, has disappeared from most of our cities. It is now six, eight, or ten cents.

[1] These numbers have since been considerably reduced.

It does not always pay to raise rates. Nowhere nearly so many people will pay ten cents to ride on our street cars as will pay five. It sometimes happens that when rates are increased, receipts are actually less, because so many fewer people use the cars. The automobile has cut very badly into the business of both steam roads and electric roads. Those foresighted railway and street-car companies which established bus lines as feeders to or substitutes for some of their own lines are now "on Easy Street."

It would be a misfortune to have the street-car lines disappear. There are plenty of people who want to use the electric cars, but if private management is not going to be profitable, private individuals will not care to enter into the business. Owners will sell their cars, wires, and tracks as junk rather than operate them at a loss.

Is capital more, or less, important in the railway business than in others? Compare the advantages and disadvantages of large-scale production as between railroads and other industries. Does it make any difference to the public whether the railroad gives many free passes? What would you think of a proposition to let everybody ride free on street railways and meet the expenses of their operation by public taxes?

If the railroads of the country were completely tied up, to what extent would conditions in your district be affected at the end of three weeks?

164. Should the Government Own and Operate Public Utilities? — When we think of the constant use by the public of railroads, lighting systems, gas systems, water systems, and the like, we may raise the question as to whether it would not be better to have them owned and operated by the government. Except in supplying water and to some extent light, we have had very little exercise of such power in this country. Steam railroads and street railways operated by the government are not uncommon in Europe, and they often render good service.

That there are evils in private management any fair-

minded observer will not deny. Those who believe that these evils will never be removed as long as these activities are conducted for private profit usually advocate government ownership of public utilities. This does not mean government operation of industry in general. There is a difference which would warrant a person's believing in government control of public utilities even though the same person were

THE INTERIOR OF A BIG POST OFFICE

Parcel post packages are being distributed into the proper sacks. Does there seem any reason why this could not be carried on as efficiently as any private business?

strongly opposed to the government's getting into business for money-making purposes.

Among the arguments offered for government ownership of railroads, telegraph and telephone lines, and the like, these are some of the most familiar:

(1) Government ownership and operation is the only way to control disputes between labor and capital. As long as private management exists there will be always constant danger of controversies and interruption of service.

(2) Government ownership should give better service at lower rates, because it will either be conducted at cost or else will have its income devoted to making important improvements in the system or to paying other expenses of the government.

(3) Government ownership will take out of the hands of a small number of great moneyed interests the large amount of wealth invested in these activities and put it into the hands of the representatives of the people. This would do away with the corrupting influence of big business upon government and would make it possible to maintain a higher standard of service.

(4) Many natural sources of power and other natural resources of untold value are the property of the whole people. The development of these resources should be done by the representatives of the people and in the people's interest, and not turned over to private greed and profit.

(5) Numerous instances of successful government operation, such as the railways of Switzerland and other countries, the Ontario "Hydro" system, our own Panama Canal, and hundreds of municipal water systems, show that efficient management is possible under public administration.

The employees of the great railroad systems of the country have been strongly in favor of government ownership. Some critically inclined people say that this is because they got wage increases while the railroads were under government operation. However, many farmers and other laboring men feel the same way about government ownership.

Now let us look at the other side, and consider some of the arguments in favor of private operation of public utilities.

(1) Under government ownership, development of public utility service would depend upon appropriations by Congress or the local government. These would often come too late and would be made or refused because of political reasons, rather than on the basis of real needs.

(2) To take over the title of privately owned utilities, the government would have to go deeply into debt. It would be difficult to agree on a fair compensation to the present holders of utility stocks. They do not know themselves what it would cost to replace their properties.

(3) Government operation is seldom as efficient as private management. Competition, which is the principal incentive

Wide World Photos

THE AIR MAIL SERVICE

At Chicago's Municipal Airport mail trucks bring mail for the planes and carry away the mail which the planes bring.

to progress and efficiency, does not exist, and things are likely to be done more and more in a wrong or slipshod manner.

(4) Though the selection of officers and men for the systems would probably be made under Civil Service rules, it is impossible for political influences to be kept out.

(5) Since government expenses of operation are, it is claimed, higher for the same service than under private management, the utilities could not be conducted without increasing charges.

This list of arguments undoubtedly represents the sentiment of the business men of the country. Of course they are

but one element, though an important one, of the country's industrial workers.

Why do the railroad employees and the Chambers of Commerce look at things so differently? Hardly anybody would ask to have the public water system or the post office put into private hands. Should the people feel differently about other public utilities?

165. Our War-Time Experiment. — Our one experience in this country in government operation on a large scale was with the railroads. For nine months after the United States went into the World War, the government allowed the roads to remain in private hands. Then the President issued an order taking over the control of the railroads of the country. His authority for this step came from the so-called Adamson Act of August, 1916, which authorized him to operate the roads in case of emergencies which threatened to interfere seriously with their administration. The roads were not coöperating properly in serving the government under war conditions. Besides, it was war time and the prime need of the nation was that everything should be brought under such direct control that the government would have no unnecessary inconvenience in transporting men and supplies.

Many perplexing problems arose during the period of government operation. The employees were constantly asking for more wages, which had to be given them to prevent their going into other employment at war wages. What goods should be shipped on the roads and which should be given preference over others? How could troops be carried to ports from which they would take passage across the Atlantic, without unduly interfering with the transportation of supplies? How could the steadily rising cost of supplies be met?

It was impossible under all the circumstances to make both ends meet. Freight and passenger rates were raised and money was appropriated by Congress to keep the roads in fair condition and to make up deficits that resulted even

under the increased rates. It is not surprising that many people thought the operation of the roads by the government had been a failure. Very likely they did not make sufficient allowance for all the difficulties that had to be faced. Numerous economies were introduced in the management of the roads, however, and combinations of service arranged which would not have been allowed under private operation. One cannot fairly judge what would have been accomplished under better conditions. Moreover, remember that this was *government operation under private ownership* — a most undesirable relationship.

When the war was over, not many wanted to keep the roads under government operation, but there was much uncertainty as to what ought to be done with them. The railroad brotherhoods strongly recommended the adoption of a system of three-fold control for the railroads. This was often called the Plumb plan, from the name of the lawyer who drew it up. It proposed that the roads be managed by a board of directors composed of representatives of managers, employees, and public. This particular proposition did not meet with much favor in Congress when it was introduced.

The Esch-Cummins Act of 1920 put the roads back in private hands, but gave the Interstate Commerce Commission authority to allow rates that would permit a higher return on investment than before. It was actually encouraged to plan for organization of the roads into several great systems instead of insisting on breaking up proposed combinations. Such reorganization has not taken place, however.

Why has the physical valuation of railroads which was begun about 1913 been of such little value?

Is transportation a more, or less, important problem in the United States than in Europe? If the national government, with the help of money appropriated by Congress, could not run the railways without going into debt, do you think that the railroads could have paid expenses under private management?

The proper relation of the government to business activities has been a matter on which men have differed widely. The government must assume responsibility for protecting private property and rights, but it must also look out for the interests of all the people. It aids business by general laws defining the rights and duties of individuals and corporations, by publishing information, and by material assistance, occasionally in the form of subsidies and bounties, and often in the form of protective tariffs.

The regulation or restraint of business has become as much of a problem for the government as the encouragement of it. We have abandoned the *laissez-faire* theory and have adopted very extensive *regulation* of business, but have not gone very far, in this country, towards government operation of business or the complete socialistic program.

Public regulation of the railroads was a very notable step, though not started by the national government until the Interstate Commerce Commission was established in 1887. Its power has been steadily increased, and jurisdiction over express, telephone, telegraph, sleeping car companies, and oil pipe lines added. The radio is under separate supervision.

Restraint over big business combinations was started, not very effectively, by the Sherman Anti-Trust Act of 1890. This was strengthened by the Clayton Act and the establishment of the Federal Trade Commission in 1914.

The proper regulation of public utilities is one of the great problems of to-day. We need them, but we want to keep them where they belong. Whether government operation of them would be an improvement is still a debated question. Our war-time experience, as it met with special difficulties, was not a fair test of the idea.

Special Studies

Adam Smith and His Influence upon Economic Life

Resolved, That Government Operation of Interstate Railroads Is Desirable

Resolved, That All Dealers in Food, Clothing, and Fuel Should Be Required to Take Out a License which Might Be Revoked on Proof of Profiteering

Present-Day Problems of the Street Railways

The Career of James J. Hill or E. H. Harriman

Canal and River Improvements in the United States Recently Accomplished or Proposed

The Work of the Interstate Commerce Commission

Resolved, That an Eight-Cent Street Car Fare (or some other figure) Is Reasonable in our Community
The Plumb Plan for Administering the Railways
The Work of the Federal Trade Commission
A Program for Managing the Nation's Coal Mines
Possibilities of Air Transportation
The Origin and Development of Private Property
Is Private Operation of Public Utilities More Desirable in the United States than in Other Countries?
Resolved, That the Federal Government Should Own and Operate the Coal Mines of the Country
Recent Developments in Coöperation with Business through the Federal Department of Commerce
A Study of the Means by which the Government Can Best Secure Economic Equality for Agriculture with Other Occupations
The Effect of the Tendency toward Business Combination upon the Need of Governmental Regulation
A Study of the McNary-Haugen Bill
The Work of the Federal Farm Board.
Resolved, That the United States Should Adhere Permanently to the Protective Tariff Policy
The Story of Muscle Shoals

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CHAPTER XVII

THE GOVERNMENT AS A BUSINESS ORGANIZATION

The nation needs all men, but it needs each man. The whole nation must be a team, in which each man shall play the part for which he is best fitted. — WILSON

We have long seen the need of government and realized some of its many functions. What would the world be without government? We know of its protection of life and property against enemies at home and abroad, its aid to the needy, its provisions for education, and many other things which our government does for us. Now we are going to look at it from a different angle. We are going to study the government itself from an industrial and commercial viewpoint. What is its organization? How does it operate? How is it financed?

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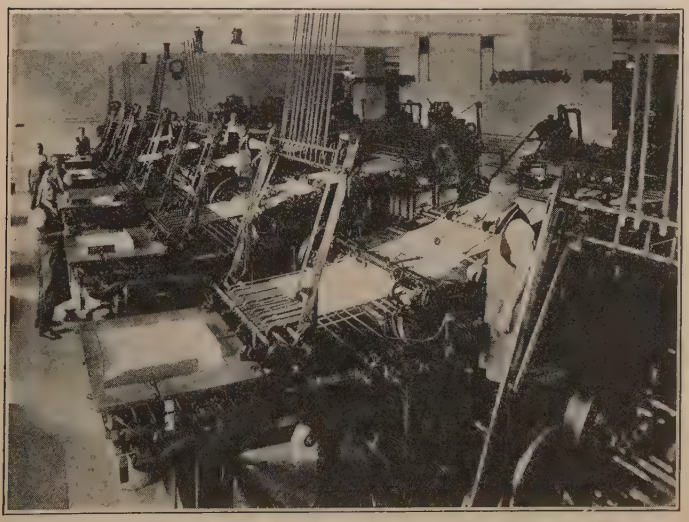
166. The Government as a Corporation. — Let us briefly review the outstanding points of any corporation. Perhaps the most noticeable fact is the number of associates or partners. Remember, also, that it is not managed by any one individual but by a board of directors elected by the stockholders, who by this means assume a degree of control in the organization. One of the best features of a corporation is its perpetuity of life. It does not go out of existence when one man dies, nor depend on any one individual for its existence. Some one is always ready to step into any vacant position. Then, too, the corporation usually carries on business on a large scale, in a more economical and efficient manner than would otherwise be possible.

Now let us feature the national government just as another corporation. First, it has a charter — the Constitution of

the United States — defining its powers and duties. Second, the citizens of the United States are to the government just what the stockholders are to a corporation. Their right to vote for the officers of the government gives them to a certain extent control over it. Then, too, our Congress and President correspond to the board of directors of the corporation. The executive branch of our government is divided into departments with a " manager " or secretary at



THE GOVERNMENT DOING BUSINESS FOR ITSELF

The Government Printing Office at Washington is one of the largest printing establishments in the world.

the head of each. The government also is perpetual, always goes on regardless of anything else, at all times, in war or peace.

These points of similarity assure us that our federal government *is* a corporation, but " of the people, by the people, and for the people " of the United States. It is a political corporation rather than a commercial one, a public corporation rather than a private one, but it does an enormous

business, at that. The organization of the governments of states, cities, school districts, and the like also corresponds in many details to the organization of a corporation.

Every corporation is established for a purpose and that purpose is stated in its charter. We may call governments service corporations, organized to engage in activities for the general welfare of the people. We have already mentioned

Welfare Island, New York

Convicted criminals are sent here. This establishment represents one of the costs of local government.

some of the services which a government renders, but perhaps we may recall them here:

(1) It determines what rights each individual possesses and what duties he owes to others.

(2) It protects people in their rights and compels them, if necessary, to perform their duties.

(3) It maintains peace and order and punishes disturbers and evildoers.

(4) It undertakes many things which governments can

do more easily than individuals, even though such activities are not strictly necessary on its part.

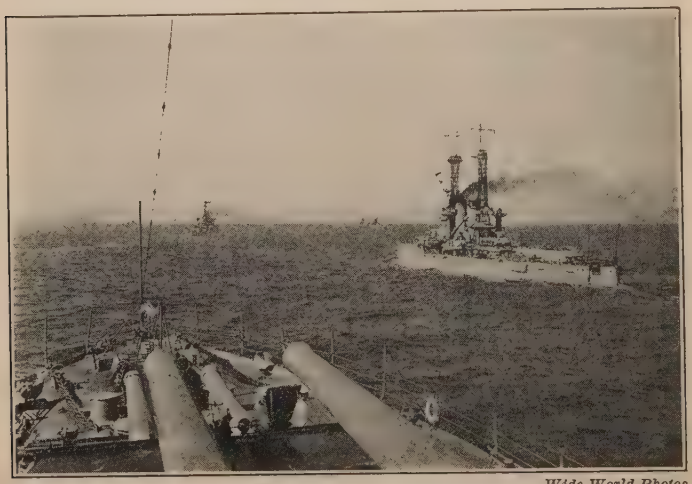
167. Why Governments Need Money. — It is clear that to perform these services a considerable number of men and women are needed. We must also have public grounds and buildings of many kinds to serve as headquarters for these officials. How are these to be obtained? Most people cannot afford to give their time to public service without being paid for it, and those few who can do so are not charitably inclined in this direction except in a time of public distress. Any government, like any corporation, must pay its employees.

Under the federal system of government which we have in the United States there is a division of functions among the national, the state, and the local governments, which does not exist in the same form in countries like Great Britain and France. There the national law-making body has the right to legislate for everything which has to do with the nation. This situation makes the administration of our government somewhat more complicated than in those countries.

Our federal government must perform various services that appear under each of the four general functions we have mentioned. It determines the rights and duties of citizens toward the national government, and has charge of matters affecting more than one state. Its work of protection is very extensive, for the care of American citizens all over the world, and the defense of their rights against foreign enemies is entirely its function.

This military function of the government is perhaps the most costly of all. We must, or think we must, keep up the army and navy for national defense, and this brings the government many obligations, such as military pensions and war insurance. The army and navy are always experimenting in various new forms of warfare, some of which are very

expensive. Seventy-five per cent or more of our expenses go toward paying the cost of past wars or preparing for future ones. Perhaps in the future we may see a reduction in this bill for war; but for years and years to come we shall have to pay the cost of wars that occurred years ago. Indeed, as Ambassador Gibson expressed it at Geneva, "We are living in a war-taxed peace."



Wide World Photos

WHERE SOME OF OUR PUBLIC MONEY GOES

Many people think we need these great war vessels, but they certainly cost money.

The national government must also enforce its own laws. This means federal marshals, attorneys, secret service men, court officials, and customs inspectors. It is also constantly spending money for services that might not be regarded as strictly necessary. Through the Department of Agriculture, for instance, it carries on many activities that promote the well-being not only of the farmers, but of everybody else as well. Its postal system, too, is used by every one.

State governments also have numerous duties in connection with each one of the four governmental functions. They

must determine the rights and duties of citizens toward each other and toward the state in matters that concern their own state. They must maintain a state militia, state police, or some other means of protecting the people from violence and enforcing the laws. They must also have courts to maintain the state's authority.

Since the national constitution limits the power of the national government, a much wider field is left to the states.

© Caufield and Shook

CITY TAXPAYERS ARE RESPONSIBLE FOR THIS
This is the City Hall at Louisville, Kentucky.

The services authorized by the state governments vastly exceed in number those of the federal government and touch the people much more closely than do most of those activities. Education is almost entirely controlled by the states, and laws for the promotion of public health must be largely under their jurisdiction. Many "homes," hospitals, and prisons or reformatories are state institutions. Immense amounts are also required for the construction of highways.

The smaller units of the government — the county, city, town, or village, also have numerous responsibilities under each of the four classes of functions. The policeman of the city and the village or rural constable are almost the only officers of law enforcement that every one is familiar with. Police regulations in regard to the use of the streets, quarantine rules in the case of contagious diseases, the supply of water, the support of schools and the enforcement of attendance are all examples of matters regulated largely by local authorities. In performing services of a social character these local governments may do almost anything from collecting garbage and cleaning streets to putting out fires and constructing waterworks or subways.

In each division of government there is a tendency to undertake more and more in the way of social service to the citizens. Acts that one hundred years ago would have been wholly beyond the scope of government are now done as a matter of course. Public playgrounds, mothers' pensions, assistance by the national government to promote education, are instances of the widespread tendency of the government to perform new things to promote the public welfare. Moreover, everything costs more than formerly. As private living expenses have gone up, so have the costs of government.

Some people criticize this tendency to expand the activities of the government. They call it " paternalistic " and assert that it tends to make people expect the government to do everything for them. Yet if these activities benefit a large part of the people and these people could not otherwise enjoy this benefit, doubtless the community as a whole is better off. If we want these things done, however, we must expect our tax bills to go up.

Some students consider the cost of government so fundamental that they look upon it as a fifth element in distribution, in addition to rent, wages, interest, and profits. But even though nothing is so sure as death and taxes, as the saying is, those government costs represent real service,

for which a citizen or other property-owner can rightfully be asked to pay, just as he pays for doctors' services, fire insurance, transportation, or labor of any kind. Perhaps it is better to think of taxes and fees simply as part of the legitimate and necessary costs of business or costs of living. The chief difference is that the government can compel one to pay taxes, while he is not obliged to run a business or go to shows, for instance, unless he wishes.

Courtesy of Kinney Manufacturing Company

AN ACTIVITY OF LOCAL GOVERNMENT

Here is seen a machine for sweeping the streets. Do you consider this kind of work "paternalism"?

Tabulate separately ten specific activities of the national government which cost something to operate, ten of the state government, and ten of the local government. After making your three lists, how many duplications do you find? Which list appears to be the most far-reaching and important? Taxes have increased tremendously in the last thirty years, even aside from those caused by the World War. Should this fact worry us? Do you think it would be wise if more of the duties of the government were centralized in the hands of the nation? Why not leave the maintenance of the schools in private hands? Why not give public support to churches

and similar institutions? Do governments get the benefit of any services for which they do not have to pay? Is there any objection to such services?

168. How Governments Secure Money and Land. — Now since we realize that the government has many expenses, let us consider some of the ways by which money is provided to pay them. There are two chief ways: by taxes and by loans. Each of these is so important that we will consider it more fully further on. We may refer to them as *regular sources* of revenue.

Every government obtains a small part of its funds from *irregular sources*. These are so called because it is impossible to tell how much will be received from them in any particular year.

(1) *Sale.* When a nation or state has public land, it may sell some of it. This country has preferred virtually to give away its public land in order to get people to occupy it. Since most of the really good land has now been taken up, the income from this item is not very great.

(2) *Gift.* Occasionally some public-spirited citizen will give a building or endow some public property for a community to use, such as a school house, hospital, or library. There again the total amount that a government could plan on getting in a year would be very slight.

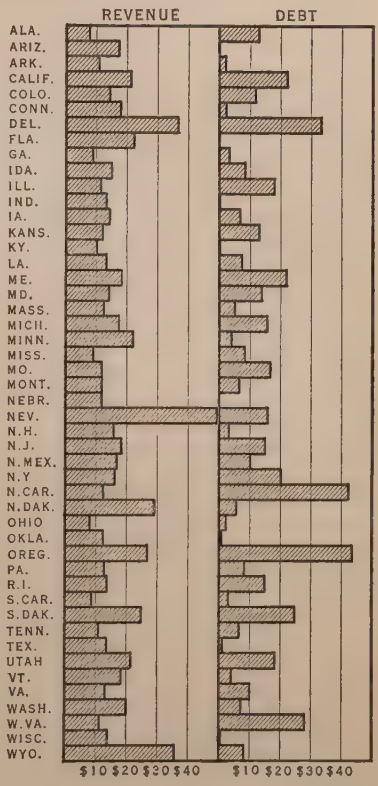
(3) *Fees* for certain special services like the recording of deeds may also go into the public treasury, though it has too often been the custom to let the public officials add these fees to their own salaries instead of turning them in to the treasury. If public officials get salaries for recording deeds, issuing marriage licenses, and the like, why should a fee be charged for the service?

(4) *Fines* imposed on those who break the laws bring in some money; but the sum of such receipts never makes a large part of the government's revenue.

(5) *Special assessments* may be levied on the owners of property directly benefited by such improvements as the

laying out of new streets, the construction of sewers, and the like. Payments of this kind meet part of the cost of such improvements and taxpayers who seldom or never get any advantage from them are relieved from some of the expenses.

(6) *Public industries* may also bring in a considerable sum. The national government receives within a few millions of enough revenue to operate its postal system, and if allowance were made for all the useful and useless government stuff carried free, it probably would be actually self-supporting. City water systems usually charge rates just about high enough to meet the cost of operation. City street-car systems and lighting plants sometimes make a profitable showing and sometimes do not. Hardly ever is any effort made, however, to operate public industry at a profit, and most of the revenue from such sources is absorbed by the activity itself.



FEATURES OF STATE FINANCE, 1926

The bars represent per capita revenue and debt in their respective columns. Four states seem to have no debt whatever. Are you justified in concluding that they are better governed than the others? What conclusions would be warranted by the difference in per capita revenue among the state governments?

Would there be anything wrong in a government's carrying on some industry for profit?

We have noticed that to keep things going we must have land for buildings and other purposes, equipment with which to work, and men and women to do the work. In obtaining land for its needs the government has several methods which it can employ. All land in the first place belongs to the state or the nation as a whole, except as either has allowed private individuals to acquire it for their own use. If a state has public land, it may do with it as it pleases — establish public parks, give it away, or dispose of it by some other means.

Suppose a settled community wants a park, and asks its government to provide one. It will probably own no public land. Then its government may buy land from private owners at a price which it considers reasonable. If they refuse to sell it at that price, the government may exercise the right of eminent domain already discussed (page 423) with reference to railroads; that is, it may take the land even against the wishes of the private owner and use it for a public purpose, paying him whatever it believes to be just. Private corporations other than railroads are sometimes given these rights by a state if they are doing work to benefit the public.

Would you justify a city in exercising the right of eminent domain to get a piece of land for a high school athletic field? To open a new street?

169. Taxes, Good and Bad. — By far the largest part of the money which any government spends is in ordinary times obtained through taxation. It is the oldest and perhaps the best method of getting it. Now what is a *tax?* It is a compulsory contribution made to a government by an individual, firm, or corporation.

What is the difference between a *contribution*, an *assessment*, a *fee*, and a *fine?*

We have seen that the object of government is to render service to all the people. Since all derive some benefit, it naturally follows that all should assume some of the responsi-

bility of the support of the government. However, that does not mean that each citizen should pay the same amount. We can see that A, whose income is $1000 a year, should not be asked to pay as much as B, who makes $100,000 in a year. It would bankrupt A to pay a tax which would not in the least affect B's comfort and happiness.

So we commonly levy taxes on the *ability theory*, which, of course, means that each should pay on the basis of his ability to pay. The *benefit theory* differs in that it holds that a man should pay only for the returns or services he gets from the state. It sounds fair, but it will not work. We cannot determine exactly just how much benefit you personally get out of your local public health service or out of the paving of Main Street. Even if we could, it would take a tremendous amount of bookkeeping to make sure that the particular little $2.43 which you paid was used for a service which directly concerned you. Our taxes go " to pay the cost of services performed for the common benefit, without reference to individual benefit." The *cost theory*, that persons should pay for the support of the government in proportion to the cost of the services rendered to them, is much like the benefit theory and open to the same objections. Some people enjoy expensive service from the government who could not pay much to its support if they wanted to.

There are certain features which every tax payer has the right to demand. (1) The money received should be used for the benefit of the public as a whole, not for a small favored group. (2) All the people should know the reasons for levying the tax, the amount they are asked to pay, and the time when the tax is due. (3) It should be collected in such ways as to impose no serious inconvenience upon those who must pay it. (4) It should bear equally on persons of equal wealth. Adam Smith in his *Wealth of Nations* says: " Taxes should be equal and just." Perhaps these are the most desirable qualities a tax could have, for when it is equal and just, all other features naturally are included. If

a tax has these qualities, people certainly should not object to paying it. But it is hard to invent a method that fully meets these requirements.

Look up Adam Smith's "four canons of taxation." Do they cover the ground with reference to present-day taxes? Is it just that families having no children in the public schools should pay a school tax? During the World War, a man in the United States had to pay a 73% tax on that part of his income above $1,000,000 a year. Would it be wise to make such a policy permanent?

170. Forms of Taxes. — All taxes may be grouped under two heads. *Direct* taxes are those which are paid to the government by the persons who bear the burden of them. *Indirect* taxes are those which are paid to the government by persons who can shift the burden of them to some one else.

This matter of the *incidence* of taxation — the question of the person or persons on whom the tax burden really falls — is not always understood. Sometimes we pay taxes without knowing it. The jeweler who imports jewels from Czechoslovakia directly pays the government the customs tax. Then he gets it back by charging a higher price to the consumer. Such a tax is indirect or shifting. The smoker or chewer in the same way pays the tobacco dealer's tax. A tax on a person's income is direct, because it would be hard to make anybody pay it other than the person whose income is taxed, but a tax on a corporation's income may be paid by an increased price of the corporation's products. A tax on a house may be either direct or indirect. If the owner of the house lives in it, the tax is direct; if it is rented, the tenant will find that the tax is covered by his rent bill.

Would you rather pay two cents postage instead of one, on a letter, or have the same amount collected by the raising of the postage on papers and magazines? Do you think a direct tax or indirect tax is more popular? Is public opinion on a matter of this kind necessarily wise?

Taxes levied on goods produced within a country are known as *excise* or *internal revenue.* These are such taxes as those on tobacco, liquors, oleomargarine, and playing cards, for instance. We have also had taxes on theater tickets, express receipts, bills of lading, telephone and telegraph messages, and the like. Excise taxes may be levied either as *specific* duties, that is, a fixed amount per pound or yard, or other unit of measure, or *ad valorem*, a certain percentage of the value of the goods. In one sense the ad valorem duty is fairer, but cheating the government by misrepresenting the value of the commodity is not so easy when the duty is specific.

Customs, *duties*, and *imposts* are taxes on imported or exported goods. Since our Constitution forbids taxes on " articles exported from any state," we are limited in this field to import duties. We generally use the word *tariff* in this country with the same meaning. These taxes also may be either specific or ad valorem.

A *poll* or *capitation* tax is a fixed sum levied on each person, usually as a qualification for voting. Noting the derivation of these two words, we might properly say that it is a tax of $1, $2, or $3 " a head." Sometimes this tax affords an opportunity for unscrupulous politicians to get votes for themselves by paying the poll taxes of certain people. Many object to this form of tax as not in accordance with our principles of good taxation, but a poll tax is seldom high enough to be an expensive burden on very many people.

There are also commercial taxes. They are usually imposed by the state or local government, rather than the federal government. The *license* taxes on peddlers, certain store owners, and expressmen are examples. The revenue obtained by this means is not large.

Taxes on *incomes* of individuals and corporations generally make use of the *progressive* or *graduated* principle. On this basis the per cent of the tax increases with the amount of the income, so that a man with a large income pays a greater tax

in proportion than a man with a smaller one. This seems fairer than the *proportional* tax, which collects it all on the same basis, regardless of the size of the income.

Under our present federal income tax law (1928), a man is allowed a $1500 exemption if he is single and a $3500 exemption if he is married, with a further reduction of tax if the

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THE LAST DAY FOR INCOME TAX RETURNS

So many people wait until the last possible hour for paying their taxes that much congestion and confusion results. Extra clerks are put on duty on such occasions and there is no time to keep the office orderly. What would happen if the tax were not paid on time?

income is considered "earned," rather than derived from investments. After the exemption is taken out, any income up to $4000 is taxed 1½%, over $4000 and up to $8000, 3%, and all above $8000, 5%. On incomes of over $10,000 there is an additional "surtax" which goes up by steps until incomes of over $100,000 pay 20% surtax on the amount over that figure.

Get a copy of an income tax blank and make yourself familiar with its chief provisions. Why are certain exemptions allowed? Do you think that the exemptions are too few or too many?

The federal government also employs an *inheritance* tax whereby it collects on the estate of a person when upon his death his property is given to his heirs. Here again, the larger estate pays a greater tax than a smaller one, and estates of less than $100,000 pay no federal inheritance tax. Many of the states also use the progressive form in collecting income or inheritance taxes.

To whom and why do inheritance taxes appeal as particularly just? Are there any good arguments against them?

The sources of revenue used by the three grades of government in the United States — national, state, and local — are thus varied. The three main sources for the national government are the excise taxes, the income tax, and the customs taxes. The federal income tax is the largest single source of revenue.

For a long time the states derived most of their receipts from a *general property* tax. This tax attempted to hit all kinds of property, but, as we shall see (§ 171), the difficulties of justly assessing this tax have been so numerous that several of the states have given it up entirely. Such states usually levy taxes on corporations, bank stock, transfers of stock, money on interest, mortgages, and the like. Several states impose taxes on franchises, or charters granted to private corporations. Some states also have income taxes and all but Florida have inheritance taxes. Since automobiles have become so common, owners' and drivers' licenses, gasoline taxes, and the like, have furnished considerable revenue. In some states such revenue is used toward the maintenance of the highways which automobilists always want.

A common way to express the tax rate on real estate or other property is by the number of mills per dollar of property

value. In some states they call one per cent of the property valuation the *grand list* and base the tax rate upon that.

Counties, cities, and other local communities get most of their revenue from taxes on real estate, licenses, or taxes on some special business, and similar sources. Understand that these general statements may not all be true with reference to your particular state or local community. There is great variety in this matter.

Study the yearly report of your state, county, or local treasurer. If any item seems exceptionally large or small, see if you can find out the reason for it. Is there anything wrong with the principle of the poll tax? Which gets the largest share of an individual's total taxes, the local, state, or federal government?

Take each of the kinds of taxes mentioned and consider it with reference to the qualities of a good tax mentioned on page 461. In each case determine whether it can be used most suitably by the national, state, or local government. An arrangement like the following may help:

Form of Tax	Good Features	Bad Features	Suitable For	Used in this State By

What is your opinion of a proposed tax of 1% or 2% on all retail sales? Would it be better if our federal income tax were so arranged that no income would be completely exempt from it? Is there anybody who pays no taxes whatever?

171. Difficulties and Disagreements on Tax Problems. — One should not expect everybody to agree in regard to matters of taxation any more than in other matters. The value of the protective tariff, for instance, is so much disputed that it has been one of the important causes for the division of political parties. The income tax has also been a national

issue. An attempt was made to collect an income tax during the Civil War period, but in 1895 the Supreme Court by a divided vote declared a later income tax law to be unconstitutional. To remove any doubt in this matter the sixteenth amendment to the national Constitution was added in 1913, and the power of Congress hereafter to levy income taxes cannot be questioned. The income tax is here to stay as a source of national revenue.

Ewing Galloway

ACTIVITIES OF A CUSTOMS OFFICER

He holds the paper on which the tourist has "declared" the goods he has brought in, but the officer checks to see if the list is correct. A tourist is allowed to bring in $100 of foreign purchases free.

The most important business taxes in the United States are those levied on corporations. Since a corporation is legally regarded as an individual, the government's assumption naturally was that it could be treated as an individual. But difficulties soon showed that this would be impractical. Since both the corporation and the members were taxed separately, it was in reality double taxation. The way that some states solved the problem was to tax the corporation alone. Some gave up the taxation of stocks and bonds, but in many states double taxation continued.

The general property tax is administered either by the state or the local government. The general plan followed by each is very similar. The tax assessors, listers, or whatever they are called, in each local community make up a list of

all persons having property there, with the estimated value of each person's property. The process of preparing this list is called assessment and that is where the chief difficulty lies. Many conceal personal property as stocks, bonds, or jewels and they are seldom assessed. You can look at a man's house and make a fair estimate of its worth, but you cannot readily tell what is in the attic or in his safe-deposit box at the bank. The result is that the honest man who is willing to tell how much he possesses is punished by having to pay more taxes than the man who lies about his wealth. In valuing land and buildings the chief danger lies in under-assessment. Too often it is intentional. To prevent such dishonesty, states like New York and Wisconsin have established boards of equalization with power to revise the estimates made by local authorities, but this does not remove the evil entirely.

Can you imagine why assessors deliberately undervalue property? Is anything gained by such a policy?

It is hard to avoid complications when the different taxing authorities undertake to get revenue from the same source. If both the national and state governments collect a tax on income, they may make it so directly burdensome as to give the income tax undeserved unpopularity. A similar " hitch " arises in the case of inheritance taxes and even in taxes on corporations. It would be well if there could be some understanding between the national and state governments as to the extent to which certain sources of taxation could be drawn upon by each. Any particular suggestion would probably arouse criticism on some points, but a division of the field of taxation would at least reduce confusion.

Do any of the faults mentioned in this section exist in your community? Have there been any recent changes in taxation in your state or local community? Why are taxes on new sources of revenue often unpopular? What should be your attitude toward tax paying as a general proposition? Is there any sufficient reason why taxes to-day are so much higher than those of thirty years ago? Point

out all the ways in which the tax system would be changed if the single tax (§ 115) were ever adopted by a national, state, or local government. Suggest ways of avoiding double or triple taxation.

In levying taxes a government may seek to bring about other ends than simply the collection of revenue. When the national government wished to get rid of the paper money issued by the state banks, it placed on the money a tax so high that the profit of issuing the money was taken away (1865). Consequently no more of that kind of money was issued. The government did not get any revenue from the tax but it accomplished a purpose. Later (1919) it imposed a tax on the products of factories using child labor when these products passed from one state to another. The object was not to raise money but to help prevent child labor. This tax, however, was declared unconstitutional by the Supreme Court as being an interference with matters belonging to the state.

Taxes may also be placed so as to favor the manufacturers or business men within a community in preference to those who live elsewhere. For example, the so-called protective tariff imposes a tax on some imported goods so high as to encourage manufacturers in this country to make the same commodity. A state may exempt from taxation the bonds of a corporation chartered by itself, while taxing other similar bonds. By exercising the tax power the government may aid or ruin an individual or an industry, as well as only bring money into the treasury. In a famous case Chief Justice Marshall said, "The power to tax implies the power to destroy." This is a fact which should not be overlooked.

Would a city government have the right to levy a tax in order to help a manufacturing company put up a factory building? to aid citizens to rebuild their homes after a destructive fire? Should any one be exempt from paying taxes?

172. Government Budgets. — During the greater part of our history, raising taxes and spending the money has been

an exceedingly haphazard business. In fact no real business man would think of handling his affairs so carelessly. Nobody had any responsibility for estimating ahead of time what revenue would be needed or proposing ways to get that revenue. When something of the sort was proposed, legis-

Ewing Galloway

AN OLD-TIME COUNTRY ROAD

The old mare could not move fast if she tried. Carrying milk or anything else to market is a tiresome and expensive proposition under these circumstances. Is not the improvement of this road a proper item in budget making?

lators too often asserted that it was an interference with their own prerogatives.

Sensible economists have long seen the folly of such methods. Some state legislatures and city councils adopted budget systems years before Congress was persuaded to do so. Our present national budget system dates from 1921. There is a Director of the Budget appointed by the President, whose duty is to receive the estimates of expenses prepared

by the various executive departments, recommend cutting them down when it seems desirable, and then turn over the completed budget to Congress. Since our Constitution puts into the hands of Congress the power "to lay and collect taxes, duties, imposts, and excises," the real control of the country's purse is with them. But with a budget system they at least have a thoughtful, unified program of expenditures to guide them.

A Fine New Highway

This wonderful stretch of road runs out of St. Augustine, Florida. In recent years states have spent enormous sums of money for such purposes as this.

A government budget is simply a systematic effort to determine in advance the revenues and expenditures for a fixed time, usually a year. An individual knows what he is going to earn, approximately at least; then he may proportion his expenditures — so much for food, rent, etc. If he follows the budget, he will come out even at the end of the year — his budget will "balance," as the expression goes. The government budget works differently, however. First the government determines the amount to be spent and then raises the necessary money.

A budget system shows the people just what their money is doing. It prevents graft because it is known just what each officer or department gets and what the money is expended for. It makes for a more economic and efficient management of public finances.

In state governments, the governor is often made responsible for submitting a budget to the legislature, though he usually turns over to some lower official the actual work of getting the estimates together. In city governments, the mayor may have a similar responsibility. The law-making branch of the government — legislature, council, or something else — must have the last word, of course. But to leave to them the whole matter of budget-making does not produce efficiency. They have too many members, and "what's everybody's business is nobody's business."

To what extent does a budget system prevail in your state or local government? If you have one, how is it operated? Does it make any difference to a business man whether his government is efficiently managed? Does it make any difference to you?

173. Debts and Their Payment. — Almost every government to-day borrows money at some time or other. These *loans* then form a part of the total debt of the government until they are paid off. Public debts of this character are comparatively new. Even a small national debt in England dates back to less than two and one half centuries ago. In the old days if the officials needed money, they would levy assessments or taxes and then just take it.

Just when are debts justified? Should we borrow for every little expense? Certainly not. Going into debt is a grave matter that should be seriously considered before it is done. Four purposes, in general, justify borrowing:

(1) To meet the cost of public improvements which will last some time and which benefit the entire community.

(2) To meet the tremendous expenses necessary to carry on war.

(3) To meet a great or unforeseen deficit in the community treasury.

(4) To meet a serious or unexpected need for which no tax revenue can be promptly obtained.

Even for such justifiable purposes there are limits on the borrowing power of governments. Some make provisions

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LEADERS OF GOVERNMENT AND FINANCE OF TWO COUNTRIES

You will recognize some of the men in this picture. Former Premier Baldwin of England and the Governor of the Bank of England are conferring with leaders of our own government concerning the payment of the British government's debt to the United States.

in their constitutions that the government can borrow up to a certain percentage and then the people must vote on the question if it is necessary to go beyond that percentage.

One of the most commonly used methods of borrowing is the issuance of bonds. Sometimes these are so arranged that a few of them will become due yearly for 20 or 25 years, being paid off by taxes each year. This method of issuing bonds

in series eliminates the paying of interest for the whole period on the entire amount borrowed. Another method is to set up what is called a *sinking fund*. In this way, a certain amount is set apart each year out of the current revenues and invested somewhere to draw interest. Then when the time comes to pay the debt, the money in the fund with the interest meets the obligation.

Never before have governments incurred debts equal to those which resulted after the World War. It is dangerous to incur too heavy a debt. Some communities have borrowed money to use in constructing highways, and then, years after the roads had been worn out, have had to go on paying off the loan. We should be sure when we consider going into debt that it is for a purpose that is worth it. It is easy to fool ourselves into thinking that because we do not have to pay the entire cost of a thing at once it will not burden us to meet the necessary expenses. "Can we afford it?" is often an eminently proper question for a community as well as for individuals.

Would you justify a city in borrowing money to build a schoolhouse? to construct a subway? to improve roads and parks? to pay the salary of its mayor? to provide free band concerts? Is it ever right for a government to repudiate its debts? It has been said that every government ought to have some debt. Can you see any advantages in such a situation? The interest received on bonds issued by state and local governments is exempt from taxation under our federal and local government income tax laws. Why is that done? Can you see any objection to it? Why can a government usually borrow money more cheaply than private citizens can?

A government is an organization to carry on public business. It is much like a corporation with many features in common with all corporations, but with the power to do things that are permitted to no other corporation. To perform its various functions, it must have land and money. It can get the land, if necessary, by eminent domain, though it compensates the previous owners when it does so. It gets its money by various means, of which taxes are by far the most important. A good tax should be imposed for the public benefit, should be definite, not inconvenient to pay, and fair.

There are many forms of taxes and many problems have arisen in administering them, not the least of which is the proper distribution of the sources of revenue, so that they may be used by the national, state, and local governments without unnecessary overlapping. The proper management of revenues and expenses calls for an efficient budget system, as our various governmental units are coming to realize. In the absence of such a system, confusion and unnecessary debt are almost certain. Debts are sometimes justifiable, but should be incurred only for important and definite purposes.

Special Studies

The Assessment of Property in Our Community
Regulations and Customs about Taxpaying in Our City and County
Sources of Public Expenses Which Should Be Abolished
The Public Debt Policy of Our City (or State or County)
Budget Making in Our City (or County or State)
Budget Making in the National Government
Henry George and His Theories
Resolved, That All Personal Property Taxes Should Be Abolished
The Problem of Highway Construction and Maintenance
Inheritance Taxes — By Whom Levied and How Graded
Proposed Reforms in Taxation
Resolved, That Government Administration Can Be as Efficient as Private Operation of Large Business

Reference Readings

Carver, *Principles of Political Economy*, Chapter 43
Ely, *Outlines of Economics* (Third Revised Edition), Chapters 31–34
Greenan, *Readings in American Citizenship*, Chapter 27
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Williams, *Readings in Economics*, Chapters 22, 32

CHAPTER XVIII

UTOPIAS AND POSSIBILITIES

The crest and crowning of all good,
Life's final star, is brotherhood. — MARKHAM

As Theodore Roosevelt said, "Without losing his individual initiative, man should be able to act in combination with his fellows for common social ends and for good government." Indeed, if we should reach such an ideal condition, we should have attained our Utopia — that time or condition when the world will live together in harmony and happiness, undisturbed by the petty bickerings and bitter struggles that exist to-day.

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174. The Actual and the Ideal. — Yes, unfortunately, unpleasant things do exist to-day, even though some people refuse to admit the fact or to pay attention to them. We must open our eyes and see clearly, else how can we correct the existing wrongs?

Sir Thomas More, four hundred years ago, gave us the word "Utopia." It comes from the Greek and means "No place," as nearly as we can translate it. More applied it to his conception of an ideal government and economic system. Many men have worked out plans to discover or create a Utopia, though so far none of them has proved practical. Dreamers and great men throughout the ages have realized the need for some sort of reform. However, while their plans for Utopias have not yet become even possibilities, we can see distinctly some good points in them.

Just what would make up a perfect community? First of all, cleanliness must be evident. Filth, unsanitary streets, and inadequate sewerage systems would strike a discordant note in such a place. Well-planned, clean streets certainly

help both the appearance and the health of a city. Nicely painted houses with well-kept lawns and gardens are another asset. A beautiful city is a requisite of an ideal community.

Second, an ideal community should insist upon the right kind of political system. The importance of another statement of Theodore Roosevelt should be felt by every good citizen—"Every time a law is broken, every individual in the community has the moral tone of his life lowered." Every sensational scandal that occurs degrades the life of the entire community. An above-board, upright political system can make a community which deserves the respect of good citizens.

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THEODORE ROOSEVELT

Roosevelt was not, and did not consider himself, a radical thinker, but he urged "a square deal for every man." Well-to-do himself, he wished others to be able to live comfortably.

Third, and perhaps most important of all, there should be complete absence of class distinction. Some communities draw almost as sharp a dividing line between classes as do the Hindus with their caste system. This is much to be deplored. In reality, we can never be a true democracy or attain high industrial ideals until such a situation is remedied.

If, indeed, all men are created equal, this equality should be maintained. But as long as Mrs. Jones tells Elizabeth, "Don't play with Mary Smith. Her father is only a common ditch-digger," we cannot truthfully say that all men are equal. Can't we get it across that Mr. Smith, the ditch-digger, may be just as good as Mr. Jones, the lawyer?

True, some differences do exist that should be banished. A well-educated man may feel that he should not associate with an illiterate, and probably he is right — but why should we have illiteracy?

This fact suggests a fourth ideal, a good system of public schools. Each boy and girl should have an equal chance to acquire an education. Good teachers and proper surroundings will help banish class differences. Each and every child should be treated alike, as far as opportunity is concerned, but differently as his talents may demand. Perhaps children are unconsciously snobbish or are influenced by their parents. But if they are educated to-day in the right spirit, the citizens of to-morrow will not easily forget that teaching.

After all, individuals make up a community. A city can be no better than its citizens. Each citizen must practice personally the ideals he advocates for his community — good health, cleanliness, the right political attitude, a readiness to recognize the equal rights of man, and the best education possible.

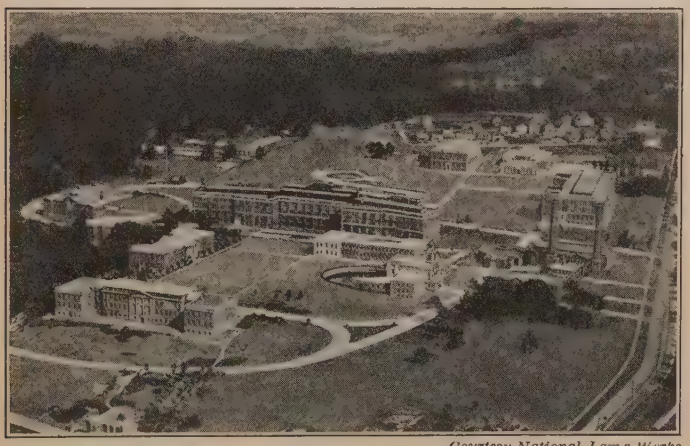
What makes people snobbish? Can a rich man be democratic? Can the attitude of an individual retard or advance the progress of an entire community?

In an ideal community to what extent would consumption, production, exchange, and distribution be conducted differently from the way they are now? Which would be more important, and which less, than at present?

175. The Contented and the Discontented. — It would be unusual in any group of people not to have some that are satisfied and some that are not. Perhaps it is well that some people are not entirely content with their surroundings or with a particular condition. Their discontent may lead them to seek improvements that will bring satisfaction to themselves and so indirectly benefit the whole community. If Henry Ford had been content with his first conception of "Lizzie," we should not have the Ford cars of to-day, and probably not as good machines of other makes. If there

were no dissatisfied people, the world would never make any progress.

However, contented people are necessary too. What kind of world should we have or what happiness could we attain if every one were complaining? The happy medium is composed of the people who are not extreme in either direction but are progressive in a sane, sensible fashion.



Courtesy National Lamp Works

A View of Nela Park

These surroundings would certainly help to make workers contented if material surroundings can do so.

Who are contented with present conditions? Of course we cannot make any hard and fast rule because cases vary as individuals differ, but generally speaking we have these different types:

(1) People who realize that the way we are doing things now is not the best way but are afraid to change because they think a change would spoil the good things they do have. They do not want "to jump out of the frying pan into the fire."

(2) There are some people who have everything they want and naturally have no desire to change.

(3) Some people do not realize how badly off they are. Their ignorance prevents them from having any incentive to change.

(4) Unfortunately, some people take so little interest in the world's progress that they don't care whether or not conditions can be made better.

Some of these people who are contented with present conditions often pride themselves upon being so. They like to be referred to as conservatives, but some folks who are sarcastically inclined call them " stand-patters."

Now we come to the discontented. Here too we find different classes:

(1) Those who figure that any kind of change could not make them any worse off, and so are willing to take a gamble at bettering their condition, no matter what kind of change may be proposed.

(2) Many people are frankly jealous of the successful and would welcome a change as an opportunity to " get even " in a vengeful and destructive manner.

(3) Fortunately, some people want a change because they know that conditions can be improved. Former Governor Smith of New York said, " I am entirely unwilling to accept the old order of things as the best unless and until I am convinced that it cannot be made better."

Is a man to be blamed or praised if he thinks much about ideal conditions which could not be obtained in his own lifetime? Can you mention any characters in history who might be listed as of that type? How were these treated by people of their own day?

176. What Is Wrong? — Before we should attempt to correct the wrongs — since we realize that there are discontented people — we must discover what is wrong. Obviously certain things need correction.

(1) There is *unfair distribution of wealth.* Don't misunderstand us. It is impossible for all the wealth to be divided equally. But corrections are needed at the extremes. What

is right or just in the fact that some unfortunate people must slave away their lives for a few paltry cents, barely enough to keep body and soul together, while others have so much that they do perfectly absurd things in order to spend it? Wouldn't it be better to educate a child with the money

Wide World Photos

THANKSGIVING CHEER FOR NEW YORK'S EAST SIDE POOR

It is well that New York's poor shall be happy on Thanksgiving Day, even though they may not have much to be thankful for the rest of the year. The lady who is responsible for distributing this deserves much credit. Wouldn't it be still better if such charity were not needed?

spent for a gold collar for Fido, a luxurious yacht, and the like?

(2) There are *political wrongs.* While this condition is somewhat improved, we still have entirely too much dishonesty among men in important offices. Graft is not at all uncommon. We have unscrupulous men in office to-day who think far more of the money they can obtain while in

the position than of the good they can do the country. And perhaps the worst of it is that "we, the people," put them there.

(3) There is *economic disorder*. The aim of production in many industries is not to provide what men really want, but to make things and then by high-pressure selling methods induce men to buy them. Over-production in certain lines, waste of raw material and of life, the use of human energy to do things which are not needed or are already being done by some one else, are common occurrences.

(4) There is *lack of opportunity*. There is much injustice in the world. Men and women born in what are often thought of as the lower classes in industry and society, find it almost impossible to rise above their surroundings and take places of leadership. As a result of all these unfavorable circumstances, crime, immoral living, and physical decay of human beings are common to a distressing extent.

Take some of our industries, the making of clothing, for example, and see whether the abuses mentioned are connected with it. Make similar observations in regard to farming.

Surely the difficulties and wrongs that exist are not so unimportant that we can safely ignore them. But to look ahead hopefully and say " The best is yet to be," is far safer and more encouraging as a motto, than " The worst is yet to come." To realize that evils even more serious and gross than those that now threaten us have been overcome, that the world with all its evils gives us more opportunity for enjoyment and improvement than it ever did before — thoughts like these are much more acceptable than pessimism.

The next question is whether the abuses we have mentioned are general, or whether they occur only occasionally, and are the result of the system of industry that prevails, or of the folly and wickedness of human beings. If we think industry is on an unsound basis, we may feel like throwing the whole system overboard and starting again on new lines. If

we believe the trouble is with men and women themselves, we shall rather be inclined, before going to such an extreme, to see whether the men who operate the system can be induced to reform. Let us look next at some of the proposed new systems of society and economics.

177. Socialism. — Most numerous among the critics of the present industrial order are the socialists. The fundamental principle upon which *socialism* is established is that the government should own and control all means of production, such as the factories, machinery, and land which are used in production. People would still be allowed private property to be used in consumption but not as capital.

Karl Marx

The socialist believes that the present system of industry is all wrong. He asserts that the workers, whose labor adds so much to the value of goods produced, are being exploited by the capitalists, who pay wages far below the value of the contribution which the workers make. The socialist declares that industries on which the mass of the people depend for their well-being should be operated by the state, which should see to it that everybody has a fair opportunity to work and to get a fair return for his labor. Thus, he thinks tyranny and injustice in the world of industry would be eliminated.

Karl Marx set forth the Socialist theory very fully when he wrote *Das Kapital*, published in 1867. It is sometimes referred to as the "Bible of the Socialists" because it covers so completely the fundamental principles which they uphold.

Even though most socialists are guided by the principles mentioned above, various men have worked out different views of it. One in particular, Robert Owen, an English manufacturer, was interested in the form often called Utopian Socialism. He dreamed of a place, as the name suggests, where everybody would be happy. He even attempted a practical application of his dream and established a socialist colony at New Harmony, Indiana. In practice, however, the plan was not successful and the settlement broke up.

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EUGENE V. DEBS

For many years he was one of the most prominent socialists of the United States. Does he look dangerous?

A comparatively modern branch of socialism is the British Fabian Society organized in 1899. While it is not large in size, many well-known people belong to it who give it prestige. George Bernard Shaw, the author, is one of its foremost advocates, and among other leaders it has had Sidney and Beatrice Webb.

In the United States, the socialists have formed separate political organizations. The Socialist Party regularly nominates a candidate for the presidency, who, while he has never had any chance of election, often gets a good number of votes. Eugene V. Debs was one of the leading Socialist candidates for office. Perhaps it would be correct to say that American socialism has not been favored with as much intellectual leadership as socialism has enjoyed in other countries.

The opponents of socialism declare that it has weaknesses that would prove fatal to a democratic government. It has

in it great danger to liberty, they say. The government, completely in the hands of officials, would control the only means of employment. A new industrial tyranny, it is argued, would be inevitable. Even if the system were managed with perfect efficiency — and such a thing is hard to imagine, in view of what we know about politics — it would introduce new evils. Individual enterprise in the business world would be unlikely. Initiative and originality would stagnate in the absence of competition to arouse it.

Socialist parties in European countries have never attempted to put the whole program into operation. Indeed, they have not attempted anything more than our " progressive " parties in this country have advocated. It would be interesting to have a pure program of industrial socialism tried out somewhere, unmixed with radical ideas about society and religion, but no country seems to care to offer itself for experimentation.

Should it be considered a reflection upon an idea to say that it is "socialistic"? Under socialism, how and by whom would a person's wages be determined? Would the result be likely to be fairer than by the present system? Do you know of any rich man who is a Socialist? If such a thing is possible, how would you explain it?

178. Communism. — Another class of radicals are the Communists of to-day. As the name suggests, they believe in owning everything in common. All property and wealth, not only the means of production, are at the command of the state. " What's mine is yours, and what's yours is mine," they say, though usually the Communist is a person who has not much to share with anybody else. As one modern writer puts it, " Communism is a political belief or creed which demands, however it may be brought about, a revolutionary change in social conditions which shall place each man in a position to enjoy what his neighbor enjoys."

Various experiments at communistic communities have been attempted here, but none has had any measure of success. Regrettably, but in accord with human nature, most

of us are more ready to take than to give. In any group there may be some whose whole character is unselfish, but entirely too many people figure that as long as some one else does the work, it is not necessary for them to do any, and yet they still expect their share of the wealth accumulated by hard-working, conscientious people.

Explain, with reference to both Socialism and Communism, how it would change the situation in regard to consumption, production, exchange, and distribution, if either were in operation. To what extent would conditions be better or worse than at present?

Wide World Photos

A District Council in Soviet Russia

This council has assembled to decide what to do with the property of a landowner who has fallen under their disapproval.

179. Bolshevism. — Bolshevism is a system of industry and government which found its opportunity in Russia, beginning in the latter part of the World War. One hardly knows whether to call it a form of Socialism or Communism. It operates through *soviets*, which are bodies representing various industrial classes in the country. The soviet leaders have made no attempt to do away with private property

entirely, and have even abandoned in practice some of the doctrines which they advocated when they seized power. Some of them have explained this action merely as a temporary step made necessary by circumstances and not to be continued permanently.

Their system makes the state all-powerful, and puts in its hands all the essential forms of industry. Mines, waterways, railroads, banks, and everything of similar character are to be the property of the state and administered by it. The control of affairs is supposed to be in the hands of the workers, but the seizure of power by the Bolshevists was made possible by a policy of "blood and iron." Of course, it is true that in no other way could they have hoped to get power.

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TYPICAL RUSSIAN PEASANTS

The Soviet Government has found it hard to bring these men into its industrial system.

Some of their ideas are undoubtedly good. We can hardly disagree with the doctrine that he shall not eat who does not work. It is not wholly a bad notion that people who live by merely employing others or by means of wealth which they did not earn shall have no part in the government; yet in another sense they have simply reversed the old situation and set up an autocracy of "workers and soldiers." This is no true democracy, either political or industrial.

It is a question just what has been accomplished by Bolshevism in Russia. Those from other countries who have visited Russia under Bolshevistic rule tell us such contradictory stories of progress or decline that an outsider may be pardoned for not knowing what to believe. A system

that was entirely bad could hardly last even ten years, yet it is often asserted that whatever success has been attained is the result of the use of wealth stored up under the old government. The very fact that the government has had to hire industrial experts to operate some of its business activities for it complicates the situation.

180. Class Agitators. — Many who feel that a socialist program is wholly impracticable have great sympathy for the sincerity of many Socialists and their ardent desire to bring about a happier world for everybody. It is not so easy to feel sympathetic with fault-finders and trouble-makers who do not want to coöperate, but simply wish to overturn industry and society in order to put on top the class which has been at the bottom. The American Federation of Labor has as little use as the richest capitalist for such organizations as the Industrial Workers of the World, called the I. W. W. for short.

This organization declares: "The working class and the employing class have nothing in common. Between these two classes a struggle must go on until the workers of the world organize as a class, take possession of the earth and the machinery of production and abolish the wage system. . . . The trade unions aid the employing class to mislead the workers into the belief that the working class have interests in common with their employers. It is the historic mission of the working class to do away with capitalism."

To attain their ends people of this type will often engage in anything that will bring them victory. "Direct action" is the phrase which they use to describe their methods. They declare that the worth of any method is judged by its effectiveness. "Sabotage" is a term which is applied to various petty acts, such as causing machinery to get out of order, doing poor work in the making of the product, or otherwise interfering with the employer's profits through impairing the quality or lessening the quantity of goods which he pro-

duces. The I. W. W. often speak of the "one big union," by which they mean doing away with separate trade unions, and joining all workers of all kinds in one great association. In Europe people holding such opinions are often called Syndicalists.

Most radical of all agitators is the Anarchist. His doctrine is the exact opposite of that proposed by the Socialist who wants to multiply the activity and authority of the government. The Anarchist is opposed to any of the present kinds of governments — good or bad — because to him government is only a check on man's personal freedom. Society's condition is so hopelessly bad, he thinks, that the only way to correct it is to overturn all existing authority and form such new groups as people's interests naturally lead to. The unfortunate part of anarchism is that its followers believe in going to any extremes to gain their end. Anarchy thus becomes "senseless destruction of property and life, indulged in simply as a form of terrorism."

It seems absurd to hope for reform by such means. Government has made the world what it is to-day and is as necessary and important as ever to keep the world going. The governments of to-day were created by the people's will or exist by their tolerance. How could mere destruction bring about anything better?

Can you imagine any circumstances which would justify the methods used by the I. W. W.? If employers had always been square with their employees would such movements exist to-day? If a man out of work is offered a job which he does not like, is he justified in refusing it and asking the community to support him?

181. A Better Day. — We have been convinced that some wrongs exist, and some conditions need to be remedied. We have considered some of the radical plans for improving those conditions. It is not a hopeless task. The world is better than it used to be and there is a fine chance of making it a first-class place in which to live.

Throughout the history of the world, nations have experienced many changes, industrial, social, and political; sometimes they were related. Many came about through the inventions of a genius, or the teachings of a great philosopher or religious leader. Sometimes changes have come about through war or revolution; sometimes by slower progress in custom or law that we may call evolution. Great good has sometimes come through war and revolution. Yet revolution usually changes other things as well as those that need to be corrected; and when changes come suddenly there is almost always a violent reaction.

When innovations come gradually, this is less likely to occur. If a new thing is not introduced too quickly, people are more likely to be ready for it and to accept it when it is established. A revolution either destroys in order to build things new or else destroys simply for the sake of destroying. Evolution brings on the new without changing the old suddenly or unnecessarily. The latter method seems to be preferable.

Because a change may cause discomfort, should we be unwilling to make it?

182. Our Responsibility. — Each of us needs to feel a sense of responsibility for our social and economic welfare. Our economic life, on which all our other interests depend, will prosper most successfully only when each of us is prepared to do his part as intelligently and as unselfishly as possible. Ignorant people cannot help but retard progress in every line.

Can a voter in the United States vote intelligently who knows nothing of the economic progress and problems of mankind? Can there be other kinds of progress if economic progress is lacking? How many people do you know who regularly read more than one newspaper or who read anything with which they disagree?

Is it proper for churches to discuss economic problems? Is it proper to discuss politics in the school? to take up any questions about which people disagree? Has anything which you have studied in this book changed your mind?

Coöperation is the keynote of achievement. In order to have the best and most efficient government, we must all coöperate in voting, in obeying the law, and in rendering public service. We must recognize our obligations towards others. So it is in business and industry. The day of "every man for himself, and the devil take the hindmost" has gone. As Elbert Hubbard said, "If a man write a better

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book, preach a better sermon, or make a better mouse-trap than his neighbor, though he build his house in the woods, the world will make a beaten path to his door." But they will not long keep his cash register busy unless he helps to provide them with solid comfort and happiness, materially, mentally, or spiritually. If we would all work together at the great task of improving our common life, we could attain Utopia sooner than we now dare to hope.

In what way can conditions in the trade or profession which you expect to follow be improved? How can that trade or profession work for a better society and a better world? What can you do about the matter in the position which you may occupy?

It is sometimes good for us to try to realize what an ideal community would be like, even though it might appear to be a dream about Utopia. Its people should be clean, morally and physically, intelligent, well-governed, enjoying equal rights and opportunities. One who is fair-minded and open-minded realizes that such conditions prevail hardly anywhere as fully as he wishes they might. He sees extremes of wealth and poverty, political dishonesty, inefficient industry, and unequal opportunity.

To some the evils that they discover seem so great that they would substitute an entirely new industrial system. The favorite remedy of the Socialists is the control of all essential industrial activities by the state. Communists would go further and do away with private property entirely. The Bolshevists in Russia have attempted a tremendous experiment in this direction. Others say, "Put that class on top which has been on the bottom." Anarchists would even overthrow our whole existing system and take a chance on something better coming out of the chaos.

The forward-looking citizen who does not believe in radical remedies prefers, however, to proceed with changes gradually. Evolution, not revolution, is his method. Adopt a new idea or method when its value is clear. Go on, step by step, toward higher ground and sounder principles. Coöperation, not class war, is his slogan. Let everybody do his part. Thus, day by day, his community will become more nearly like the Utopia of his ideals.

Special Studies

Attempted Utopias
The I. W. W. and Their Activities
What Is the Truth about Bolshevism on Its Economic Side?
Resolved, That It Is Well for the World that Russia has tried Bolshevism
The Various Forms of Socialism
Causes of Economic Discontent
Which Promises More for the Working Men, Trade Unionism or Socialism?
A Study of Edward Bellamy's *Looking Backward*
Improvements in Our Economic System for which We Ought Not to Work

Resolved, That the Russian Government is Justified in Teaching Bolshevist Doctrines in Its Public Schools

Resolved, That all Persons or Families with an Income of less than $10,000 should be Exempt from Taxation

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Watkins, *Introduction to the Study of Labor Problems*, Chapter 24

Williamson, *Readings in Economics*, Chapters 19, 23, 24, 25, 26, 36

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The following list includes all the books mentioned in reference lists at the close of chapters in the text, and a few others. Those marked with * were written for college texts or for similar advanced study. Those marked with † were prepared for secondary school or younger pupils, or by reason of style or content are likely to be interesting to or otherwise specially suitable for such pupils. Other books in the list were prepared for general reading, but have a direct bearing on one or more topics mentioned in the text. While this list is believed to be more than ordinarily comprehensive, no claim is made that it includes all the worth-while titles. On the other hand, some of the titles will not be available for all schools. Teachers will naturally make selections of the books best suited to their own work.

After the first appearance of a publishing company's name, only the significant portion of it is given. All publishing companies except those otherwise indicated may be addressed at New York.

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† Adams, *Description of Industry*, Henry Holt & Co.

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† Chase, *The Tragedy of Waste*, Macmillan
† Chase and Schlink, *Your Money's Worth*, Macmillan
Chassee, *The Management of Personal Income*, A. W. Shaw Co.
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Crowther, *Why Men Strike*, Doubleday, Doran & Co.
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Williams, *What's on the Worker's Mind*, Scribner
† Williamson, *Readings in Economics*, Heath
Wolfson, *The Woman Worker and the Trade Union*, International Publishers Co.

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